

1 UNITED STATES DISTRICT COURT  
2 DISTRICT OF PUERTO RICO  
3  
4 In Re: ) Docket No. 3:17-BK-3283 (LTS)  
5 )  
6 ) PROMESA Title III  
7 The Financial Oversight and )  
8 Management Board for )  
9 Puerto Rico, ) (Jointly Administered)  
10 )  
11 *as representative of* )  
12 )  
13 The Commonwealth of )  
14 Puerto Rico, *et al.* ) July 29, 2020  
15 )  
16 Debtors, )  
17 )  
18 )  
19 )  
20 )  
21 )  
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12 In Re: ) Docket No. 3:17-BK-4780 (LTS)  
13 )  
14 ) PROMESA Title III  
15 The Financial Oversight and )  
16 Management Board for )  
17 Puerto Rico, ) (Jointly Administered)  
18 )  
19 *as representative of* )  
20 )  
21 Puerto Rico Power )  
22 Authority, )  
23 )  
24 Debtor, )  
25 )

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1  
2 National Public Finance ) Docket No. 3:19-AP-00422 (LTS)  
3 Guarantee Corporation, )  
4 et al., )  
5 ) *in 3:17-BK-4780 (LTS)*  
6 Plaintiffs, )  
7 )  
8 v. )  
9 )  
10 UBS Financial Services, )  
11 Inc., et al., )  
12 )  
13 Defendants. )

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9  
10 Ambac Assurance ) Docket No. 3:20-AP-00047 (LTS)  
11 Corporation, )  
12 ) *in 3:17-BK-3283 (LTS)*  
13 Plaintiff, )  
14 )  
15 v. )  
16 )  
17 Merrill Lynch, Pierce, )  
18 Fenner & Smith, )  
19 Incorporated, et al., )  
20 )  
21 Defendants. )

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17 OMNIBUS HEARING  
18 BEFORE THE HONORABLE U.S. DISTRICT JUDGE LAURA TAYLOR SWAIN  
19 UNITED STATES DISTRICT COURT JUDGE  
20 AND THE HONORABLE U.S. MAGISTRATE JUDGE JUDITH GAIL DEIN  
21 UNITED STATES DISTRICT COURT JUDGE

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1 APPEARANCES:

2 ALL PARTIES APPEARING TELEPHONICALLY

3 For The Commonwealth  
4 of Puerto Rico, et al.: Mr. Martin J. Bienenstock, PHV  
5 Mr. Brian S. Rosen, PHV  
6 Ms. Laura Stafford, PHV

7 For National Public  
8 Finance Guarantee  
9 Corporation and MBIA  
10 Insurance Corporation: Mr. Philippe Z. Selendy, PHV  
11 Mr. Federico Hernandez Denton, Esq.

12 For Underwriters: Mr. Peter G. Neiman, PHV

13 For Ambac Assurance  
14 Corporation: Mr. Jonathan E. Pickhardt, PHV

15 For Puerto Rico Fiscal  
16 Agency and Financial  
17 Advisory Authority: Mr. John J. Rapisardi, PHV  
18 Mr. Luis C. Marini Biaggi, Esq.

19 For the Special Claims  
20 Committee: Mr. Tristan G. Axelrod, PHV

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1	I N D E X	
2	WITNESSES:	PAGE
3	None.	
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5	EXHIBITS:	
6	None.	
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1 San Juan, Puerto Rico

2 July 29, 2020

3 At or about 9:42 AM

4 \* \* \*

5 THE COURT: Good morning. This is Judge Laura Taylor  
6 Swain.

7 MS. NG: Hi, Judge. It's me, Lisa.

8 THE COURT: Good morning, Ms. Ng.

9 Ms. Tacoronte, would you announce the case, please?

10 COURTROOM DEPUTY: Absolutely, Your Honor.

11 The United States District Court for the District of  
12 Puerto Rico is now in session. The Honorable Laura Taylor  
13 Swain presiding. Also present, the Honorable Judith Dein.  
14 God save the United States of America and this Honorable  
15 Court.

16 *In Re: The Financial Oversight and Management Board*  
17 *for Puerto Rico, as representative of the Commonwealth of*  
18 *Puerto Rico, et al.,* PROMESA Title III, case number 17-3283,  
19 for Omnibus Hearing.

20 THE COURT: Buenos dias. Good morning and welcome  
21 counsel, parties in interest, and members of the public and  
22 press. We are once again convening telephonically for today's  
23 Omnibus Hearing against a backdrop of circumstances that  
24 present numerous challenges for all participants and  
25 stakeholders in these Title III proceedings.

1           Our thoughts remain with all of those on the island  
2 and on the mainland who have been affected directly and  
3 indirectly by the coronavirus pandemic, as well as the people  
4 on the island coping with the damage and unease brought about  
5 by the most recent series of earthquakes that hit the southern  
6 region of the island and the uncertainties of the storm  
7 season.

8           To ensure the orderly operation of today's telephonic  
9 hearing, all parties on the line must mute their phones when  
10 they are not speaking. If you are accessing these proceedings  
11 on a computer, please be sure to select "mute" on both the  
12 Court Solutions dashboard and your phone.

13           I remind everyone that, consistent with court and  
14 judicial conference policies, and the Orders that have been  
15 issued, no recording or retransmission of this hearing is  
16 permitted by any person, including, but not limited to, the  
17 parties, members of the public or the press. Violations of  
18 this rule may be punished with sanctions.

19           I will be calling on each speaker during these  
20 proceedings. When I do, please unmute yourself and identify  
21 yourself by name for clarity of the record. After the  
22 speakers listed on the Agenda for each of today's matters have  
23 spoken, I may provide an opportunity for other parties in  
24 interest to address briefly any issues raised during the  
25 course of the presentations that require further remarks. If

1 | you wish to be heard under these circumstances, please unmute  
2 | yourself and state your name clearly at the appropriate time.  
3 | I will call on the speakers if more than one person wishes to  
4 | be heard.

5 |           Please don't interrupt each other or me during this  
6 | hearing. If we interrupt each other, it is difficult to  
7 | create an accurate transcript. But having said that, I  
8 | apologize in advance for breaking this rule, as I may  
9 | interrupt if I have questions or if you go beyond your  
10 | allotted time.

11 |           If anyone has difficulty hearing me or another  
12 | participant, please say something immediately. The time  
13 | allotments for each matter and the time allocations for each  
14 | speaker are set forth in the Agenda that was filed by the  
15 | Oversight Board on Monday, July 27. The Agenda, which was  
16 | filed as docket entry No. 13847 in case 17-3283, is available  
17 | to the public at no cost on Prime Clerk for those interested.

18 |           I encourage each speaker to keep track of his or her  
19 | own time. And the Court will also be keeping track of the  
20 | time and will alert each speaker when there are two minutes  
21 | remaining with one buzz, and when time is up, with two buzzes.

22 |           Here is an example of the buzz sound.

23 |           (Sound played.)

24 |           THE COURT: If your allocation is two minutes or  
25 | less, you will just hear the final buzzes.

1           If we need to take a break, I will direct everyone to  
2       disconnect and dial back in at a specified time. This  
3       morning's session will end by noon, and I don't expect to need  
4       an afternoon session.

5           The first Agenda item is, as usual, status reports  
6       from the Oversight Board and AAFAF. As I requested in the  
7       Procedures Order, these reports have been made in writing in  
8       advance of this telephonic hearing and are available on the  
9       public docket at docket entry Nos. 13874 and 13870 in case  
10      17-3283. I've reviewed the reports carefully, and I thank the  
11      Oversight Board and AAFAF for the care and detail reflected in  
12      the reports, which I find quite comprehensive.

13          I have some questions regarding ADR for the Oversight  
14      Board, but first I will invite the Oversight Board to make any  
15      additional or general remarks its representatives wish to make  
16      on the record this morning.

17          MR. BIENENSTOCK: Your Honor, this is Martin  
18      Bienenstock of Proskauer Rose for the Oversight Board. Good  
19      morning.

20          THE COURT: Good morning, Mr. Bienenstock.

21          MR. BIENENSTOCK: Good health to everyone.

22          We didn't have additional remarks. I think my  
23      partner, Brian Rosen, is also on, and he would address the ADR  
24      questions.

25          THE COURT: Thank you, Mr. Bienenstock.



1                   Mr. Rosen, are you on? Mr. Rosen, would you unmute  
2 and say something if you're on?

3                   (No response.)

4                   MR. BIENENSTOCK: Your Honor, if --

5                   THE COURT: It sounds like something or someone  
6 dropped.

7                   Ms. Ng, can you tell whether Mr. Rosen is on the  
8 dashboard?

9                   MS. NG: He's on the dashboard. I'll unmute him.

10                  Mr. Rosen, are you there?

11                  MR. ROSEN: I am on the phone, Your Honor.

12                  THE COURT: Okay. Very good. Good morning,  
13 Mr. Rosen.

14                  MR. ROSEN: Good morning, Your Honor.

15                  THE COURT: And so this is Brian Rosen of Proskauer  
16 speaking, yes?

17                  MR. ROSEN: Yes, Your Honor.

18                  THE COURT: Okay. Very good.

19                  I had some questions regarding ADR, and it's  
20 basically to assist the Court with staffing and structural  
21 decisions in connection with the evaluative mediation aspect  
22 of ADR. And so my general question is to ask you to discuss  
23 your overall projected timeline for the ADR process.

24                  I'm particularly interested in your view of the  
25 earliest point at which you expect to have completed the offer

1 exchange phase with respect to any claims; and at what point  
2 you would expect to begin increasing the number of claims per  
3 notice; and what your target number of claims per notice and  
4 frequency of notices might be; and then I'll have a couple of  
5 other questions. But the timetable and volume are the ones to  
6 start with.

7 MR. ROSEN: Yes, Your Honor. And also, Your Honor,  
8 Ms. Stafford, who you know, is also on the line, and she may  
9 assist me at any point in time.

10 Your Honor, as we reflected in the status report, we  
11 transferred a minimum amount of claims the first time, only  
12 21, and we anticipate that we'll provide an update on  
13 September 8th. We are working with the Department of Justice,  
14 the Puerto Rico Department of Justice with respect to bringing  
15 in more claims into the ADR process, but we anticipate at this  
16 time probably moving only in the same period -- excuse me, the  
17 same amount of claims in, on a going-forward basis for the  
18 first few times. So we're talking about, Your Honor,  
19 approximately 20 to 30 to 40 claims. Each will include claims  
20 not only against the Commonwealth and HTA, but also we've  
21 included some that were against PREPA.

22 We are working with the providers, as we included in  
23 there, and we're discussing with the Unsecured Creditors  
24 Committee some issues associated with those providers. We --

25 THE COURT: This would be the arbitration providers?

1 MR. ROSEN: Yes, Your Honor.

2 And specifically, we've been talking with JAMS and  
3 AAA. Those were the two providers that gave us proposals that  
4 we found acceptable and that we wanted to continue a dialogue  
5 with them. And it is likely, Your Honor, that we would  
6 probably utilize both of those just based upon the number.  
7 And with some claims being mainland-based, and some being on  
8 island, and one provider being able to accommodate us more  
9 with on-island and more Spanish speaking arbitrators, so we  
10 decided to bifurcate the roles to have it be a little bit  
11 smoother running for not only the Oversight Board, but also  
12 for the Puerto Rico Department of Justice.

13 We are working with the Department of Justice now  
14 with respect to settlement bandwidth so that we can move this  
15 forward quickly. We don't anticipate -- or excuse me. We do  
16 anticipate being able to provide those offers in the time  
17 frame that is required under the Order, which is the 60-day  
18 time frame.

19 And so, with respect to the first 21 claims that were  
20 placed into the ADR, we will provide those responses in the  
21 beginning of September, or those settlement proposals. We  
22 don't anticipate needing the services, however, of the court  
23 processes probably for another 30 to 60 days after that time  
24 period, and it will be small claims. We're hopeful that the  
25 settlement offers that we make will be satisfactory obviously,

1 and there will be very few people that will be necessary from  
2 the Court's perspective.

3 As these ramp up, Your Honor, we don't anticipate  
4 getting more than probably 1,000 claims at the end of the day,  
5 but that could change based upon the settlement processes and  
6 the acceptances by the respective claimants.

7 THE COURT: And so the 1,000, is that a net number  
8 that you would expect might go to evaluative mediation, or is  
9 the 1,000 the number of claims you would notice up for the ADR  
10 process in total?

11 MR. ROSEN: I think, Your Honor, it's probably in  
12 total, but as we dig down a little bit more, as the bar date  
13 on PBA comes about now and more claims are being filed there,  
14 we may have to change that estimate, in which case we'll  
15 obviously inform the Court. But that is our guesstimate at  
16 this time.

17 THE COURT: Okay. And again, just for clarity, for  
18 me and for others, I think the last time we had spoken at an  
19 Omni about numbers, there had been a guesstimate of ten to  
20 fifteen thousand claims coming through ADR, if I'm not  
21 mistaken. And so --

22 MR. ROSEN: Those were the total amount possible,  
23 Your Honor, but as we continue to analyze and cull the  
24 information, that number continues to be reduced.

25 THE COURT: All right. I very much appreciate that

1 clarification. And it sounds to me as though with 20 to 40  
2 claims per notice for, as you say, the next few times, would  
3 it be fair to say that we shouldn't expect more than a couple  
4 hundred at most to be noticed up and taken into the process  
5 before the end of the year?

6 MR. ROSEN: I think that's a fair number, Your Honor,  
7 yes.

8 THE COURT: And do you expect to be grouping these  
9 claims substantively or conceptually in any way?

10 MR. ROSEN: Well, Your Honor, as we indicated in the  
11 status report, we're focused at this time on some litigation  
12 phase and some accounts payable. We'll probably continue to  
13 do that with -- as the Puerto Rico DOJ gets more up to speed  
14 on some of these and we can process more of the information,  
15 probably veering a little bit more towards the  
16 litigation-based claims rather than the accounts payable.

17 THE COURT: And that's for the foreseeable near and  
18 mid term?

19 MR. ROSEN: Yes, Your Honor.

20 THE COURT: And that actually covers all of my  
21 questions. And so you expect to be doing a notice per month  
22 of the 20 to 40 claims?

23 MR. ROSEN: Your Honor, I think under the Order, it's  
24 anywhere from -- I think it's up to 60 days. So it's probably  
25 in that two-month time frame that we'll do the notices.

1 THE COURT: Thank you.

2 MR. ROSEN: I think the next batch, Your Honor, would  
3 be in October. I just want to make sure. The status would be  
4 due in September with -- excuse me. I apologize. The second  
5 tranche will be August 24th. We'll send more into the ADR  
6 process.

7 THE COURT: Okay. And then after that, it would be  
8 October?

9 MR. ROSEN: Probably, Your Honor. That would be our  
10 goal.

11 THE COURT: Thank you very much. This is very  
12 helpful.

13 MR. ROSEN: My pleasure.

14 THE COURT: And so I have no further questions for  
15 the Oversight Board. And I again thank AAFAF for its report.  
16 I have no questions for AAFAF at this point, but did  
17 Mr. Rapisardi or Mr. Marini wish to make any additional or  
18 general comments?

19 MR. MARINI BIAGGI: Good morning, Your Honor. Luis  
20 Marini for AAFAF. I don't have any further comments other  
21 than what we put in our status report.

22 THE COURT: Thank you, Mr. Marini.

23 Are there any other counsel who have questions or  
24 comments that they wish to make in connection with the status  
25 report? If you do, unmute yourself, and state your name

1 clearly, then wait for me to call on you to speak.

2 I know that the unmuting can be complicated, so I'll  
3 wait 15 seconds before I go on.

4 All right. That was 20 seconds, and so I am assuming  
5 that there are no further comments. Thank you all.

6 And so at this point, I will turn to the argument of  
7 the Motions to Remand. National's Motion to Remand is docket  
8 entry No. 31 in adversary proceeding 19-422, and Ambac's  
9 Motion to Remand is docket entry No. 22 in adversary  
10 proceeding 20-047. We have 60 minutes allocated for the oral  
11 argument in total, and the first scheduled speaker is  
12 Mr. Selendy for MBIA and National, who has been allocated 11  
13 minutes.

14 Mr. Selendy.

15 MR. SELENDY: Good morning, Your Honor.

16 THE COURT: Good morning.

17 MR. SELENDY: May it please the Court. Philippe  
18 Selendy for plaintiffs, National and MBIA, which I'll refer to  
19 together as National. I am on the line with my co-counsel,  
20 Federico Hernandez Denton. And today, National and Ambac will  
21 share plaintiffs' time.

22 I'll address common issues for both insurers: Why  
23 these non-core claims against nondebtors will not affect the  
24 estate; why this Court should remand; and why there's no  
25 federal question. Federico Hernandez Denton will then address

1 the nature of the claims and the Commonwealth's interest. And  
2 John Pickhardt will speak to points specific to Ambac.

3 As a threshold matter, defendants bear the burden of  
4 establishing removal jurisdiction and disputed questions of  
5 fact; and controlling substantive law must be construed in  
6 favor of remand. Importantly, the Claims Committee itself is  
7 not advocating to keep the cases in this court.

8 The insurers here are asserting claims solely against  
9 the underwriters of Puerto Rico municipal bonds. They are  
10 equitable claims under *actos propios* and unilateral  
11 declaration of will, are based on Article VII of the Civil  
12 Code.

13 As the Puerto Rico Supreme Court has held, the  
14 doctrines are unique in the American system, with no ready  
15 analog at common law. *Actos propios* protects legitimate  
16 expectations under a standard of exceptional good faith, while  
17 unilateral declaration of will is like unilateral contract,  
18 enforcing commitments made with the intent of affecting the  
19 conduct of others.

20 What the insurers must show is that the banks made  
21 false assurances of due diligence in a way contrary to  
22 accepted norms in Puerto Rico. If the banks violated their  
23 assurances, leading National and Ambac to insure deals that  
24 failed, the banks are responsible for the losses.  
25 Significantly, the claims don't require any proof of debtor



1 misconduct.

2           Now, according to the banks, there are two main  
3 conceivable effects: A reduction in the insurers' claims  
4 against the estate, or an increase in the banks'  
5 indemnification or contribution claims against the estate.  
6 But as I'll explain, that's wrong. There will be no effective  
7 change in the insurers' claims, and the banks' claims are too  
8 contingent and remote. These non-core cases will not impact  
9 the rights or liabilities of the estate or the administration  
10 of these proceedings.

11           First, defendants admit the insurers filed proofs of  
12 claim against the debtors for the exact same amounts claimed  
13 against the banks. But if National and Ambac prevail, the  
14 banks will be subrogated automatically, dollar for dollar, to  
15 the insurers' claims under Section 3248 of Puerto Rico Civil  
16 Code. 3248(1) applies because the banks, as unsecured  
17 creditors, will be satisfying the debtors' obligations to  
18 preferential creditors. And 3248(3) applies because the banks  
19 have an interest in the same debt that is the subject of the  
20 insurers' proofs of claim.

21           As the Supreme Court held in *Eastern Sands*, this  
22 statute applies automatically, not presumptively. There are  
23 no exceptions or equitable defenses. The result then is just  
24 a substitution of creditors, with no change in the  
25 classification of the insurers' filed claims against the

1 debtors. That is an insufficient nexus to confer "relating  
2 to" jurisdiction, as the cases of *Santa Clara* and *In re C&A*  
3 confirm.

4 The banks --

5 THE COURT: Mr. Selendy.

6 MR. SELENDY: Yes. Yes, Your Honor.

7 THE COURT: Sorry to interrupt, but I warned you that  
8 I might do that.

9 MR. SELENDY: Of course.

10 THE COURT: Given the magnitude of these claims and  
11 the role that the insurers have played and are playing, as a  
12 practical matter in the dynamics of the administration of the  
13 estate and litigation issues, isn't it a little unrealistic to  
14 say nothing changes when the claim holder changes, even if  
15 that's automatic?

16 MR. SELENDY: Well, the effect of a change in the  
17 substitution of the creditor is not a change in the  
18 classification of the claim. And that switch, under  
19 controlling First Circuit law, reflected in both these cases,  
20 *Santa Clara* and *In re C&A*, doesn't constitute the type of  
21 conceivable effect that is recognized in *Pacor*, which of  
22 course the First Circuit is following.

23 In terms of the dollar amount of the claims, that's  
24 not the relevant issue. The question is will there be an  
25 impact in some way to the rights or liabilities of the estate

1 or the administration. And here, because it does operate  
2 automatically, there is no effective change. Indeed, as I  
3 will cover later, if the Court were to decline to remand and  
4 instead retain jurisdiction, there would be real burdens on  
5 these proceedings because we're dealing with non-core Spanish  
6 Civil Law claims that cannot be tried with streamlined  
7 bankruptcy procedures. And there are further complications  
8 introduced by the fact that these are local law issues that  
9 require consideration of local usage, custom and public  
10 interest.

11 So if I may, Your Honor, I'll turn to the banks' own  
12 claims for indemnification and contribution, which are too  
13 remote. As I mentioned, the First Circuit follows *Pacor* and  
14 its progeny, which holds a -- claims are too contingent to  
15 support "related to" jurisdiction if further litigation is  
16 required on the claims.

17 No bank even filed a proof of claim for  
18 indemnification or contribution, other than Santander. The  
19 bar date passed two years ago, and the remote chance that late  
20 filed claims might be allowed cannot support jurisdiction.

21 Here, of course, the Special Committee issued their  
22 report showing bank failures of due diligence back in mid  
23 2018, and the FOMB, National and Ambac all filed complaints  
24 long ago. There's no excuse, as Rule 9006(b)(1) requires, for  
25 the banks' neglect.

1           Santander's Proofs of Claim fair no better. They are  
2 contingent under the rule of *W.R. Grace*, because the debtors  
3 are likely to object, as they did in COFINA, where Santander's  
4 claims were disallowed, thus requiring further litigation.

5           There's also a second independent reason why the  
6 banks' claims are all inadequate, and that is that they are  
7 all conditional. In the First Circuit, indemnification of  
8 contribution claims only matter for "relating to" jurisdiction  
9 if they're virtually automatic and unconditional. The case of  
10 *In re Montreal Maine* is a good example.

11           And here, even for the subset of deals where the  
12 banks do have indemnification rights, the contracts impose  
13 limits and conditions. One important condition is in Section  
14 13(a), which carves out debtor liability for any untrue  
15 statement or omission by the banks. Exactly what's alleged  
16 here. In addition, the law also implied exceptions for bad  
17 faith and gross negligence, both of which again are implicated  
18 here.

19           Finally, Your Honor, there's no precedent for the  
20 banks' speculation that they might claim non-contractual  
21 contribution for liability based on their own equitable  
22 misconduct.

23           So in summary, no bank can identify any timely,  
24 virtually automatic indemnification of contribution claims as  
25 the First Circuit requires for there to be any impact

1 sufficing for "relating to" jurisdiction. Even if this Court  
2 were to conclude that there's some attenuated basis for  
3 "relating to" jurisdiction, the cases still should be  
4 remanded.

5 Comity dictates federal courts should be hesitant to  
6 exercise jurisdiction when state issues substantially  
7 predominate, and of course Commonwealth issues substantially  
8 predominate here over bankruptcy issues. The claims do not  
9 challenge the legality, operation, intent or conduct of the  
10 debtors; do not require interpretation of PROMESA; and do not  
11 relate to the restructuring.

12 On the other hand, the claims do raise important  
13 issues as to the interpretation and application of --

14 (Sound played.)

15 MR. SELENDY: -- law. *Actos propios*, and unilateral  
16 declaration of will are claims that originate in Spanish Civil  
17 Law or adopted by the Puerto Rico Supreme Court. The contours  
18 of the claims are still being developed. And where issues of  
19 local law are unsettled, their predominance is always  
20 significant as the bankruptcy court held in *In re Acevedo*.  
21 That favors remand.

22 I'll note the banks engaged in misdirection when they  
23 compared Commonwealth courts to federal -- Commonwealth issues  
24 to federal law generally, rather than the bankruptcy issues;  
25 but even on that wrong standard, the banks fall short. The

1 insurers don't bring federal securities claims and they  
2 cannot -- there are no federal defenses to their equitable  
3 claims.

4           Moreover, any impact or lack of impact on the estate  
5 will be the same whether the cases are litigated here or in  
6 the Commonwealth, just as in *Cambridge Place* where Judge Dein  
7 recommended equitable remand, despite automatic debtor  
8 liability for indemnification. And notably, to give complete  
9 assurance that there's no effect on the estate, National will  
10 stay execution and enforcement of any judgment until after  
11 Plan confirmation. That makes this an easier case than *Vitol*  
12 or *ASP*, both of which this Court remanded because claims were  
13 expected to be resolved post confirmation, and in both of  
14 which cases, debtors were involved.

15           Last, Your Honor, there's no federal question  
16 jurisdiction. Under the well-pleaded complaint rule, the  
17 question raised by the insurers is simply whether Puerto Rico  
18 equitable doctrines require the banks to live up to assurances  
19 made in Puerto Rico years ago. That's a fact bound, situation  
20 specific question of local law. There's no federal actor  
21 here, no challenge to the validity of any federal law or  
22 regulation, no risk of any precedent of systemic federal  
23 import. In fact, there's no question of federal law at all.

24           The banks admit they haven't performed --

25           (Sound played.)

1 MR. SELENDY: Your Honor, may I have 30 seconds and  
2 I'll finish?

3 THE COURT: Yes. You may finish your thought. Thank  
4 you.

5 MR. SELENDY: Thank you.

6 The banks admit they had to perform reasonable due  
7 diligence. They said so in all the offer materials. And that  
8 context sets the basis for legitimate expectations in the  
9 Commonwealth's bond market.

10 It doesn't matter whether the obligations imposed by  
11 the equitable doctrines overlap with those imposed by federal  
12 law, as the United States Supreme Court made very clear in  
13 *Merrill Lynch v. Manning* when it remanded state law claims  
14 that referred repeatedly to violations of federal securities  
15 regulations. And the First Circuit case of *Municipality of*  
16 *Mayaguez*, is the same effect.

17 Finally --

18 THE COURT: Thank you.

19 MR. SELENDY: Finally, if the Court were to weigh the  
20 congressionally approved federal-state balance, Commonwealth  
21 interests dominate. Congress does approve of parallel state  
22 regulation that touches upon securities matters, particularly  
23 on municipal issuances, and Puerto Rico hasn't --

24 THE COURT: Thank you, Mr. Selendy.

25 MR. SELENDY: Thank you.

1                   My counsel, the former Chief Justice of Puerto Rico  
2 Supreme Court, Federico Hernandez Denton, will now address  
3 Puerto Rico's overwhelming interest in defining its scope of  
4 the equitable doctrines. Thank you, Your Honor.

5                   THE COURT: Thank you.

6                   Mr. Hernandez Denton. Mr. Hernandez Denton, can you  
7 unmute yourself?

8                   Ms. Ng, would you see if there's anything you can  
9 unmute?

10                  (Discussion off the record.)

11                  THE COURT: Okay. All right. So we will wait.

12                  Mr. Hernandez Denton, if you can just make sure that  
13 you have pressed "unmute" on your phone, and if you have the  
14 computer screen up, also on the computer screen. And we will  
15 wait for the courtroom deputy to see if she can do this from  
16 the master screen. I apologize for the delay.

17                  Maddie, are you still there?

18                  All right. Thank you, everyone, for your patience.  
19 We will just continue to wait.

20                  MS. NG: Judge?

21                  THE COURT: Yes, Ms Ng.

22                  MS. NG: I'm sorry.

23                  (Discussion off the record.)

24                  THE COURT: Thank you both.

25                  Good morning, Mr. Hernandez Denton.



1 MR. HERNANDEZ DENTON: Yes. Good morning, Your  
2 Honor. Thank you very much for your patience. May it please  
3 the Court, I'm Federico Hernandez Denton on behalf of  
4 National.

5 First, I would like to thank Your Honor for your work  
6 on this very important matter.

7 I am going to address the Commonwealth courts'  
8 overriding interest in adjudicating those disputes, which  
9 involve doctrines unique to the Civil Codes and its  
10 institutions. I am referring to *la doctrina de los actos*  
11 *proprios* and *la doctrina de la declaracion unilateral de*  
12 *voluntad* as sources of obligations. Both claims emanate from  
13 Article VII of the Puerto Rico Civil Code, which expressly  
14 enables the court to decide cases in accordance with equity.

15 These claims are rooted in our civil law tradition of  
16 several centuries. Applying *la doctrina de los actos propios*,  
17 the Puerto Rico Supreme Court said, in *International General*  
18 *Electric*, that "the rule that nobody is allowed to go against  
19 his own acts is grounded and rooted in the general principles  
20 of law. And one should act in good faith in the juridical  
21 life. Contradictory behavior should be prevented." And  
22 that's the end of the quote.

23 Diaz Picasso, a very distinguished civil law lawyer,  
24 a scholar, essentially analyzed the doctrine in a very often  
25 quoted writing, and explained that the concept of *doctrina de*

1 | *los actos propios* includes, and I'm quoting, "loyalty in the  
2 | dealing, as well as honest and faithful conduct, a criterion  
3 | of conduct according to which obligations should be  
4 | performed." And that's my own translation, Your Honor.

5 |         As to *la declaracion unilateral de voluntad*, in  
6 | *Ortiz*, the Supreme Court of Puerto Rico expressly recognized  
7 | it as a source of obligations which enforces a claim on a  
8 | promise made with the intent to influence the conduct of  
9 | others.

10 |         In our civil law tradition, judges have significant  
11 | discretion to shape the contours of its claims, and to do so  
12 | must weigh the public interest, the customs and usage of the  
13 | community. The Commonwealth courts are also free to recognize  
14 | new applications of old doctrines, and have done so on  
15 | multiple occasions to specific conducts of parties in  
16 | different types of conducts, in all aspects of human  
17 | interactions.

18 |         Considering its experience with those doctrines, the  
19 | Commonwealth courts are best suited to interpret -- to  
20 | interpret the Puerto Rico Civil Code and the institutions that  
21 | are derived from both doctrines, according to our customs --

22 |         (Sound played.)

23 |         MR. HERNANDEZ DENTON: -- and usage. They are also  
24 | in a better position to examine the developments of those  
25 | doctrines in countries with similar civil law traditions, from

1 Spain to Argentina.

2           We must bear in mind that in interpreting and  
3 applying these doctrines to specific facts, a court  
4 knowledgeable in civil law always takes into consideration the  
5 extensive jurisprudence of the Supreme Court of Spain and of  
6 other countries, as well as the civil law treatises. These  
7 experiences, as well as the application of the doctrines of  
8 different conducts in several other countries carry great  
9 weight in Puerto Rico jurisprudence.

10           In addition, the Commonwealth courts, steeped in  
11 civil law tradition, are best suited to interpret these  
12 Spanish language treatises, law review articles, and  
13 jurisprudence in their original language. The common law, on  
14 the other hand, has no bearing on the interpretation or  
15 application of *doctrina de los actos propios* or *la declaracion*  
16 *unilateral de voluntad*.

17           With that in mind, former Associate Justice of the  
18 Supreme Court, Jaime Fuster, and a well-known comparative law  
19 scholar, explained in *Corraliza* that, as expressly stated in  
20 his Opinion, that the federal court's attempts to use the  
21 common law to interpret equitable claims has, in fact, caused  
22 great confusion. For example, the use of a secondary  
23 statement to interpret *la doctrina de los actos propios*, while  
24 comparing it to the Commonwealth concept of promissory  
25 estoppel.

1                   And another very well-known author, a Spanish author,  
2 Jaramillo, in his treatise on *la doctrina de los actos*  
3 *proprios*, also addressed --

4                   (Sound played.)

5                   MR. HERNANDEZ DENTON: -- and reminded us that *la*  
6 *doctrina de los actos propios* is different than common law.  
7 Let's not forget that the common law does not recognize *la*  
8 *doctrina de la declaracion unilateral de voluntad* as a source  
9 of obligations.

10                  The Commonwealth courts should apply the civil law  
11 doctrines to the facts that originate in the Complaint filed  
12 by National in the Superior Court. They are not touched --  
13 they are not security claims, and have no real analog in  
14 common law. They are based on doctrines of good faith  
15 principles.

16                  Our courts are specifically powered by the Civil Code  
17 to provide the equitable relief that we are requesting. And  
18 if I may have a few more seconds, finally, Your Honor, the  
19 significance --

20                  THE COURT: Very briefly, please.

21                  MR. HERNANDEZ DENTON: Finally, Your Honor, the  
22 significance and importance of both doctrines is so entrenched  
23 in Puerto Rico that the recently adopted Civil Code reiterated  
24 the importance of good faith and of *la doctrina de los actos*  
25 *proprios* in all of its acts, and has expressly codified *la*

1    *declaracion unilateral de voluntad.* That often occurs after  
2    civil law countries decide to revamp their legal systems and  
3    actualize their civil codes, and incorporate judge-made  
4    doctrines into the codes.

5               For the reasons previously stated, and in  
6    consideration of comity, we respectfully request that this  
7    Court remand this action to the Judicial Branch of Puerto  
8    Rico.

9               Thank you, Your Honor, for the opportunity to address  
10   this Court. It has been a privilege and an honor for me to do  
11   so today.

12              I will now turn the argument over to counsel for  
13   Ambac, unless Your Honor has any questions that I might assist  
14   you to be able to respond.

15              THE COURT: No. Thank you. I have no questions.  
16   And thank you very much for your argument. The honor is  
17   mine.

18              I'll turn now to Mr. Pickhardt.

19              Ms. Ng, can you make sure that you don't have any  
20   muting on on your end?

21              MS. NG: I'm here and I'm watching everything.

22              MR. PICKHARDT: Good morning, Your Honor. John  
23   Pickhardt on behalf of Ambac. Are you able to hear me okay,  
24   Your Honor?

25              THE COURT: Yes, I can. Thank you so much. Good

1 morning, Mr. Pickhardt.

2 MR. PICKHARDT: Good morning.

3 Your Honor, I will be brief, because Ambac's Motion  
4 to Remand should be granted for all of the same reasons that  
5 Mr. Selendy and Judge Hernandez Denton described, including  
6 that it is not related to this Title III proceeding; it does  
7 not arise under federal law; and it involves unique equitable  
8 doctrines that Puerto Rico has an overriding interest in  
9 having its own courts adjudicate.

10 However, Ambac's Complaint also has an important  
11 distinction which makes any argument that it belongs in this  
12 Court even more attenuated, since the two bond issuances that  
13 are the subject of Ambac's Complaint were not issued by any  
14 Title III debtor. Rather, Ambac's case involves bond  
15 issuances by the Puerto Rico Infrastructure Financing  
16 Authority, PRIFA, and by the Puerto Rico Convention Center  
17 District Authority, PRCCDA, which, as Your Honor knows,  
18 neither of which are Title III debtors that have appeared in  
19 this proceeding.

20 The fact that the issuers are not Title III debtors  
21 in Ambac's case is important for two reasons. First, it means  
22 that Ambac's case is distinct, because the official statements  
23 that are at issue in Ambac's case were not issued by any Title  
24 III debtor. And while the conduct at issue in Ambac's case,  
25 like National's case, is the underwriters' statements

1 regarding their due diligence efforts, the defendants have  
2 nonetheless contended in opposing the remand that the conduct  
3 of Title III debtors is nonetheless implicated.

4 That argument is especially attenuated in the case of  
5 Ambac's Complaint, where the instrumentalities that issued the  
6 official statements are not before this Court in this Title  
7 III proceeding. It is similarly much more difficult for  
8 defendants to contend that a Title III debtor would somehow be  
9 a defendant in Ambac's case but for the existence of this  
10 Title III proceeding. The Commonwealth is not a signatory on  
11 the official statements, only the non-debtor instrumentalities  
12 are.

13 It also means that the defendants' arguments  
14 regarding involvement of Title III debtors as third-party  
15 witnesses in Ambac's case is even more attenuated. And to the  
16 extent that third parties -- and this is all relevant, and, in  
17 any event, will be associated with PRIFA and PRCCDA, not the  
18 Commonwealth or any other Title III defendant.

19 Secondly, this distinction means that Ambac's case is  
20 unique because no Title III debtor has any contract, any  
21 agreements with the underwriter defendant with regard to the  
22 bond issuance at issue in Ambac's case. This is perhaps the  
23 most important distinction, that the defendants rely very  
24 heavily on the existence of underwriting agreements with Title  
25 III debtors in arguing that National's case is related to

1 those proceedings.

2           Specifically, defendants argue that any recovery  
3 against them would result in an indemnification claim against  
4 the Title III debtor under their underwriting agreement, which  
5 would impact those proceedings. Mr. Selendy described all of  
6 the substantial and insurmountable impediments for such a  
7 claim in the case of National, but in addition to those, no  
8 such indemnification claims could even possibly exist in  
9 regard to Ambac's case because the underwriting agreements are  
10 with PRIFA and PRCCDA, which are not Title III debtors.

11           The defendant also argued in the case of National  
12 that their underwriting agreements would provide the basis for  
13 contribution claims against Title III debtors. Again, such  
14 contractual contribution claims against a Title III debtor are  
15 not even possible in the case of Ambac's actions.

16           And while defendants had, therefore, pivoted to  
17 arguing that they have Commonwealth contribution claims  
18 against the Commonwealth, in the case of Ambac, even that  
19 argument is more attenuated given no Title III debtor signed  
20 or issued the official statements on that issue, and  
21 subsequently, would ultimately be precluded for all of the  
22 reasons described by Mr. Selendy, including that such a claim  
23 would be, you know, redundant of the automatic subrogation to  
24 Ambac's claim. There is no basis in identifying any improper  
25 conduct by a Title III debtor.



1                   And I would also just note in closing, Your Honor,  
2                   that in the arguments that were presented here, with respect  
3                   to --

4                   (Sound played.)

5                   MR. PICKHARDT:  -- there being no implication on the  
6                   Title III proceeding, it is further supported by the  
7                   Informative Motion that was filed by the Oversight Board in  
8                   which it indicated that Ambac's proceeding, "does not concern  
9                   or implicate any obligation of a debtor in the Title III  
10                  proceeding."  And similarly the Oversight Board said again,  
11                  "it does not appear to have any disputed issues of fact in  
12                  common with litigation brought by the Oversight Board."

13                  And I understand that the Oversight Board will  
14                  address Your Honor later with respect to their informative  
15                  motion and their position in this case, which I understand  
16                  does not distinguish between, you know, Ambac and MBIA's case,  
17                  is what they -- you know, with respect to both actions, but  
18                  certainly the informative motion that they filed in respect of  
19                  Ambac's case, you know, and also a further persuasive reason  
20                  why this case should be remanded.

21                  Unless Your Honor has any questions, I will conclude  
22                  there.

23                  THE COURT:  Thank you, Mr. Pickhardt.  I have no  
24                  further questions for you.

25                  MR. PICKHARDT:  Thank you, Your Honor.

1                   THE COURT: And so we will now turn to the argument  
2 for the defendants opposing the motion. I have Mr. Neiman  
3 down for 28 minutes.

4                   And, Ms. Ng, can you make sure that we don't have  
5 anything blocked on our end?

6                   MS. NG: Will do, Judge.

7                   THE COURT: Thank you.

8                   MR. NEIMAN: Thank you, Your Honor. Can you hear me  
9 okay?

10                  THE COURT: Yes, I can. Good morning.

11                  MR. NEIMAN: Hi, Your Honor. This is Peter Neiman  
12 from Wilmer Hale. I represent the Underwriter defendants.

13                  Your Honor, I was feeling a little old this morning  
14 when I realized it was actually 18 years ago that I was before  
15 you for three months. I represented the government in a  
16 criminal case.

17                  THE COURT: It was a long time ago, but we're still  
18 young, right?

19                  MR. NEIMAN: Thank you, Your Honor. I appreciate  
20 that.

21                  I wanted to start the conversation today by  
22 addressing a couple of things that were said by my colleagues  
23 on the other side that I think are not quite accurate. And  
24 the first is the suggestion from Mr. Selendy, and I think this  
25 was also echoed by Mr. Pickhardt, that somehow the debtor

1 misconduct was not implicated in these adversary proceedings.  
2 And I don't think you have to look any further than the  
3 complaint in the adversary proceedings to know that that's not  
4 correct.

5 Those complaints are just littered with allegations  
6 that the offering statements contained material  
7 misrepresentations about the financial condition of the  
8 debtor. Those are the debtor's statements. And that would be  
9 debtor misconduct if they said false things in the offering  
10 documents.

11 The reason that both Mr. Pickhardt and Mr. Selendy  
12 tried to claim the debtor misconduct is not at issue here is,  
13 because we've cited two cases that are closely analogous on  
14 the facts, the *Worldcom, Inc. Sec. Litig.* from this Court, and  
15 the *SPV* decision from the Second Circuit that say, where  
16 debtor misconduct is central, that by itself could establish  
17 "related to" jurisdiction. It clearly is central here,  
18 because it's -- and it's all over their Complaint.

19 The second thing that I wanted to pick up on, and  
20 this is related to a question that Your Honor asked, and the  
21 response, I think, was a little inaccurate from Mr. Selendy.  
22 Your Honor asked, wouldn't a substitution of parties itself be  
23 an important impact. We obviously don't concede at all that  
24 -- their rights at subrogation, so on that -- that's one of  
25 the issues here is substitution of parties, and I'll get to

1 that in a minute. But they are suggesting to you, not  
2 withstanding your practical question -- you know, to say the  
3 least, the bond insurers have been important players in this  
4 bankruptcy. I think they've filed between them more than 490  
5 filings in the Title III cases. And they've been quite  
6 aggressive litigants, that you might expect from firms that at  
7 this point have no business other than litigation. And as a  
8 practical matter, it's certainly reasonable to think that  
9 having their claims litigated or reduced would be quite  
10 significant.

11 And Mr. Selendy, said, you know, you find First  
12 Circuit authority in *Santa Clara*. And *Santa Clara*, Mr.  
13 Selendy repeatedly refers to in his brief as a First Circuit  
14 decision. It is not a First Circuit decision. It's not  
15 binding authority. It's a decision of the Bankruptcy  
16 Appellate Panel, which is not binding on a United States  
17 District Court, period.

18 There are cases that go both ways on the question of  
19 whether substitution of parties is itself sufficient "related  
20 to" jurisdiction. And I think on the facts here, as Your  
21 Honor noted, given the significance of the bond issuers in  
22 this case, there is jurisdiction, although we have plenty of  
23 other arguments as well.

24 I also wanted to say, the suggestion that subrogation  
25 is so clearly automatic here, that there's no possible

1 financial impact on the debtors. I'll just note that they  
2 make that claim, the plaintiffs, but they haven't cited a  
3 single case that says that equitable defenses are unavailable  
4 to subrogation in this context. They haven't cited a single  
5 case that says that subrogation is even available in this  
6 context.

7           This is not a case in which an insurer or a guarantor  
8 stated they had, in a hypothetical world in which it seems --  
9 where they've progressed in a lawsuit, and they've paid, and  
10 we go to seek subrogation, we would be in the position of  
11 someone who had been found liable and had been found to have  
12 engaged in misconduct, and traditionally, subrogation is  
13 subject to equitable defenses in that kind of circumstance.  
14 They've cited no case to suggest it isn't.

15           I'm just asking you to do a little thought  
16 experiment, Your Honor, to -- when you're thinking about the  
17 question of whether subrogation -- it's so automatic that you  
18 should just review it here, assuming there's no possibility of  
19 a financial impact. Just imagine, Your Honor, that they  
20 prevail in these cases, we pay the debt, and then we go to the  
21 debtor and say, look, you should just pay us the same hundreds  
22 of millions of dollars in cash and bonds that you were going  
23 to pay the bond insurers. So subrogation is automatic. You  
24 just have to pay us.

25           And ask yourself the question, in that circumstance,

1 would the debtors really say, the very smart and intelligent  
2 lawyers who represent the debtors, would they really say, oh,  
3 you know, you're right? We have no possible defenses here.  
4 We're just going to write you a check or issue bonds for  
5 hundreds of millions of dollars, even though there's been no  
6 cases cited that say that you're even entitled to subrogation,  
7 and there's certainly no case that says that ordinary self --  
8 equitable defenses don't apply. We'll just send you a check.  
9 We won't even litigate. It's so clear that we won't even  
10 litigate. Or instead, would one expect and assume that in  
11 that circumstance, the reaction of the debtor before writing a  
12 big check would say, well, actually, there might be. There's  
13 some pretty obvious defenses here we'd like to assert, and  
14 we'll test whether they apply or not.

15           There is no way that subrogation here is automatic as  
16 the plaintiffs suggest, and it's certainly concludable that  
17 the debtors would assert defenses and that they would prevail,  
18 in which case there would be an enormous financial impact on  
19 the estate.

20           I also wanted to address very quickly the suggestion  
21 from Ambac that their case was materially different from the  
22 National case in ways that their view favored remand. And I  
23 think the first thing that they suggested was, well, you know,  
24 their case doesn't really involve any Title III debtor. And  
25 it's true that the bonds that they are suing about were not

1 issued by a Title III debtor, but their claim -- they've made  
2 a claim against the Commonwealth related to those very bonds,  
3 as you know, asserting that the Commonwealth did an improper  
4 clawback and that was the reason why they didn't get paid --  
5 that those bonds didn't get paid. And they've made the exact  
6 same claim in their case against us.

7 And so the conduct of the Title III debtor for that  
8 reason is very much at issue, both in their claims against the  
9 debtor and their claims against us. And indeed, the  
10 Commonwealth is the source of many of the statements in the  
11 offering documents that are also central to their case against  
12 us.

13 The official statements repeat over and over again  
14 that the Commonwealth is one of the sources of the information  
15 that they are alleging is false in their case against us. So  
16 their suggestion that this case is somehow very different from  
17 the National case because the bonds were not issued by the  
18 Commonwealth, but by an instrumentality that's not a Title III  
19 debtor, I think really doesn't wash because, in fact, they've  
20 put the conduct of the Commonwealth itself very much at issue,  
21 both in their adversary proceeding against us and in the  
22 claims they've made in the Title III proceeding.

23 So with those basic points, without -- I'd like to  
24 just kind of walk through for the Court, in the time that I  
25 have available, the reasons why we think this is clearly

1 "related to" jurisdiction here, and why we think that actually  
2 remand would not be appropriate.

3 I also want to spend a few minutes talking about why  
4 actually you don't even need to get to either of those issues,  
5 because the adversary proceeding Complaints, which on their  
6 face invoke the federal securities laws by name 57 times, and  
7 also invoke the duties of underwriters under those federal  
8 securities laws another 90 times, and identify exactly one  
9 misrepresentation that they claim was made by the  
10 underwriters, and that misrepresentation is -- claims to be  
11 the representation that due diligence was conducted in  
12 conformity with the federal securities laws. And so it  
13 shouldn't be surprising, given a complaint that reads like  
14 that, that that provides for "arising under" jurisdiction  
15 here.

16 Let me start with "related to" jurisdiction, and as I  
17 think everybody agrees, you know, the standard here is whether  
18 it's conceivable that the adversary proceeding could have an  
19 impact on the bankruptcy. That's a low bar by any measure,  
20 and here it's more than conceivable for multiple reasons,  
21 whether the bond insurers win these adversary proceedings or  
22 whether we win these adversary proceedings, it's going to be  
23 likely that it's going to have an impact. And that's true  
24 likely whether these adversary proceedings are resolved before  
25 or after any plan is confirmed.



1           We've already talked about one type of impact, and  
2   that is, you know, in a world in which the bond insurers win  
3   and collect from us, that would mean, since they can't collect  
4   the same dollars as they collect from us, they can't collect  
5   from the estate, that would reduce their claims against the  
6   estate. And because subrogation is not -- is potentially  
7   subject to things like equitable defenses, that could have a  
8   huge financial impact on the estate, hundreds of millions of  
9   dollars at least. So that's one example.

10           A second example is, let's assume it's in a world in  
11   which we prevail. Could that have an impact on the estate?  
12   And the answer is absolutely yes. And let me just give you an  
13   example of that.

14           It's quite conceivable that if we win the Ambac case,  
15   for example, that that would actually eliminate Ambac's proofs  
16   of claim against the Commonwealth on the bonds that are issued  
17   in the adversary proceeding.

18           Ambac's proof of claim asserts, as I mentioned  
19   before, that the Commonwealth lawfully diverted funds that  
20   should have paid their bonds, and Ambac's Complaint in the  
21   adversary proceeding makes the identical claim, that the  
22   debtor of the Commonwealth lawfully diverted funds.

23           And, you know, we might well dispute that there's  
24   anything wrongful about what they call a diversion, and they  
25   might argue that it was Ambac's mistaken analysis that --

1 whether such diversions were allowed or when they were  
2 permitted, and not any due diligence created by us that led to  
3 their losses. And if we won that argument, we would establish  
4 the lawfulness of what Ambac provisionally calls the diversion  
5 of funds. That conclusion would be binding on Ambac, and that  
6 would eliminate Ambac's claims against the debtors. And  
7 again, that's just another instance that's conceivable, which  
8 is all that's required, and that's more than enough to show  
9 "related to" jurisdiction.

10 I wanted to, for a moment -- you know, there's been  
11 some suggestion in the papers and the proceedings that, you  
12 know, the time involved it would that (indiscernible) somehow,  
13 because of all the --

14 THE COURT: Mr. Neiman, there was some interference a  
15 couple of seconds ago, so if you can just backtrack 20  
16 seconds?

17 MR. NEIMAN: Oh, I'm sorry, Your Honor. Is it better  
18 now?

19 THE COURT: Yes, it is.

20 MR. NEIMAN: Thank you. I had just started to talk  
21 about kind of the timing issue. Is that where I dropped out  
22 at?

23 THE COURT: Yes.

24 MR. NEIMAN: Okay. And so they suggested that that  
25 timing, that is, what they call, at least in their papers and

1 in the adversary proceedings, you know, the likelihood that a  
2 plan would be confirmed before these adversary proceedings  
3 would be resolved, somehow weighing against "related to"  
4 jurisdiction. I just want to point out, we think that's wrong  
5 for a number of different reasons.

6 It's wrong because "related to" jurisdiction is  
7 determined at the time of removal. It's not suggested by  
8 subsequent events. It's wrong because the First Circuit case  
9 that we cited, *In re Boston Regional Hospital*, you know,  
10 squarely says that "related to" jurisdiction can exist even in  
11 an adversary proceeding filed after plan confirmation. But  
12 may affect distribution, but of course things that could  
13 reduce or eliminate claims could certainly affect  
14 distribution, particular creditors where the debtor agreed to  
15 provisions that would allow for reductions in claims post  
16 confirmation, where the creditor got paid from some other  
17 source, which is at least conceivable here.

18 And frankly, of course, you know, in the very  
19 uncertain world that we're all living in, you know, it's hard  
20 for anybody to predict what's going to happen, when. And I am  
21 particularly curious for Ambac to be taking this position  
22 about timing, given that they've, you know, sat and opposed  
23 things like the Plan Support Agreement, that the Plan is  
24 unconfirmable.

25 So our first admission of "related to" jurisdiction

1 is just related to financial impacts on the estate, potential  
2 elimination of hundreds of millions of dollars in claims.  
3 Whether we win or lose, and whether the adversary proceedings  
4 are resolved before or after a plan is confirmed, that, by  
5 itself, is more than sufficient for "related to" jurisdiction.

6 There's also the restitution of the parties, as I  
7 spoke about before. There's also the closely analogous cases  
8 that we pointed to that say that where debtor is -- comity is  
9 central, which it plainly is here, there's "related to"  
10 jurisdiction. And then there's also the whole issue of  
11 indemnification and contribution.

12 So it's curious to me that the plaintiffs are so  
13 confident that subrogation, which normally if it was equitable  
14 defenses, and for which there's no contractual right, is  
15 totally automatic, and no one would ever question it. But the  
16 indemnification claims Santander has, the common process  
17 displayed, it's hopelessly contingent and could never be a  
18 decision for "related to" jurisdiction, we don't think that's  
19 right at all.

20 And we also have special contribution claims, and  
21 we've cited the *SPV* case for the point that the absence of  
22 timely filed proof of claim, which of course we couldn't have  
23 filed, because they sued us after, after the bar dates had  
24 run, and these are somehow deemed novel theories that I'm not  
25 sure why we would have anticipated, and we think we fit well

1 within SPV.

2 So we think there's very, very substantial arguments  
3 for "related to" jurisdiction here, and I think the Court  
4 clearly has the power to hear this case.

5 Let me turn now to the arguments that the Court  
6 should exercise its discretion to remand, notwithstanding  
7 that it has jurisdiction here. And just a footnote, for a  
8 moment, and I'll come back to this, and I mentioned it before  
9 already, but obviously discretionary remand is only an issue  
10 if the Court rejects our federal subject matter "arising  
11 under" jurisdiction argument.

12 In other words, if we're right that this Complaint in  
13 which almost every other word is a reference to the federal  
14 securities laws, if we're right that this Complaint arises  
15 under federal law, then discretionary remand is just off the  
16 table. And I'll come back to that at the end, but let me turn  
17 now to the discretionary remand question, assuming it's  
18 available in this case.

19 It's the plaintiffs' burden here. We have the burden  
20 to show "related to" jurisdiction, and I think we've more than  
21 met that burden. But it's the plaintiffs' burden to show that  
22 remand is appropriate. And the Supreme Court has made clear  
23 that the ordinary obligation of a federal court to exercise  
24 its jurisdiction when it's possibly been invoked is virtually  
25 unflagging, and plaintiffs have not met that burden here.

1           This is a very substantial dispute between parties  
2 who are absolutely central to the bankruptcy, the  
3 underwriters, and the bonds that are at issue, and the  
4 insurers of many of those bonds. This is not some  
5 long-running -- a case that's been in the Puerto Rico courts  
6 for years, like a couple of cases that Your Honor has had  
7 remanded. We moved at the very outset.

8           And as I said, this case, you know, essentially turns  
9 on questions of federal law. This is a Complaint with, you  
10 know, 57 direct -- two Complaints of 57 direct references to  
11 federal securities laws, 90 references to the duties created  
12 by those laws, and the only misrepresentation that they  
13 identify is the representation that we conducted the due  
14 diligence in accordance with the federal securities laws.

15           So they tell you, oh, this is really basically a  
16 dispute under Puerto Rico law, and I just don't think that's  
17 consistent with the Complaint that they filed.

18           THE COURT: But there is no private right of action  
19 under the cited rule, correct?

20           MR. NEIMAN: That's absolutely right, Your Honor.  
21 But in order to prevail in this case -- make no mistake about  
22 it, in order to prevail in this case, they have to show that  
23 the representation they've identified in their Complaint is  
24 false.

25           None of these doctrines allow them to complain

1 | because we said something that was true. These documents  
2 | require them to show that we said something that was false.  
3 | And the only thing that they identified in the Complaint that  
4 | we said that was false is representation that we complied with  
5 | the obligations of due diligence under the federal securities  
6 | laws, which means they have to prove that we violated the  
7 | federal securities laws.

8 | THE COURT: But in --

9 | MR. NEIMAN: Then the --

10 | THE COURT: They have to prove liability under the  
11 | civil law doctrine has taken place that they invoked.

12 | MR. NEIMAN: Oh, that's right. It's not sufficient  
13 | for them to prove that misrepresentation, but it's absolutely  
14 | essential. And my point is just, Your Honor, that when  
15 | thinking about the discretionary issue, and when thinking  
16 | about whether state law issues predominate or federal law  
17 | issues predominate, the central thing that they need to show  
18 | in order to have any chance of prevailing is that we violated  
19 | the federal securities laws. And I think that weighs heavily  
20 | against discretionary remand.

21 | On the question -- let me just sort of walk Your  
22 | Honor through kind of the traditional factors one by one that  
23 | weigh in on discretionary remand, and articulate a view why we  
24 | think they all favor Your Honor keeping this case.

25 | The first factor is the effect of the action on the

1 administration of the bankruptcy estate. We've already  
2 detailed why this could have a profound effect, potentially  
3 eliminating up to a billion dollars in claims, potentially  
4 sidelining or reducing the role for the most litigious  
5 claimants, potentially resulting in Ambac being precluded from  
6 asserting its improper clawback, in a sense. All of that  
7 weighs very heavily against remand.

8           National then -- in fact, Ambac offered what they  
9 considered to be a solution to this. They said, oh, we'll  
10 just wait, and we agree, we won't try to collect any -- we'll  
11 stay any judgment that we might obtain until after a plan is  
12 confirmed.

13           I just want Your Honor to pause for a second and  
14 think about what they're suggesting, because that is a  
15 suggestion that is probably not in the interest of the  
16 creditors, and this Court should not agree to it. If National  
17 can collect against us and reduce the amount the debtor has to  
18 pay to them, that's a good thing for other creditors, and it  
19 could potentially free up as much as 720 million dollars. But  
20 instead of having to go to pay National, it could go to pay  
21 other creditors.

22           I don't know why in the world they think this Court  
23 would want to make that money unavailable to other creditors  
24 by agreeing to some kind of collusive arrangement in which  
25 National doesn't try to collect on the debt that they would



1 try to establish until after a plan is confirmed. That makes  
2 no sense at all.

3 This case is going to have a big effect on the  
4 administration of the bankruptcy estate. That weighs  
5 substantially against remand. That which -- and I believe  
6 they talked about this a bit. I do just want to remind the  
7 Court that it's their burden to establish discretionary remand  
8 when appropriate, which means it's their burden, when they  
9 say, oh, this is all about Puerto Rico law, to show that  
10 Puerto Rico law even applies to this controversy. Let me give  
11 you an analogy that suggests that it's a pretty good reason to  
12 think it doesn't given who the parties are.

13 There's a non-Puerto Rico plaintiff suing non-Puerto  
14 Rico defendants. All the parties are located outside of  
15 Puerto Rico here. And the analogy that I thought of, the  
16 basic claim is that we made some misrepresentation to them  
17 that induced them to do something. And, you know, we see  
18 claims like that all the time in the securities world where  
19 somebody claims, look, you lied to me about the quality of  
20 some stock and I bought it. That's analogous to the claim  
21 that they're making here.

22 And that's the claim -- we don't stop and say, wait,  
23 what's the -- that the stock that was at issue in this  
24 misrepresentation case, you know, where are they located? So  
25 if I misrepresented to Mr. Selendy the quality of Microsoft

1 and he wanted to sue me, he wouldn't say, well, Microsoft is  
2 in Seattle; we have to proceed to Washington. You'd think  
3 where was I when you made the representation? Where was  
4 Mr. Selendy when he heard it? Where was the loss suffered?  
5 None of this has to do with happenstance of where the issue  
6 is. And the same is true here.

7 THE COURT: That's an argument that you'll have to  
8 make in relation to Puerto Rico choice of law principles,  
9 since whether it's in the Commonwealth court or in the Title  
10 III court, this litigation is being brought in Puerto Rico,  
11 correct?

12 MR. NEIMAN: That's correct, Your Honor. But Puerto  
13 Rico follows sort of the balance of interests test, and in a  
14 case in which the plaintiffs are not from Puerto Rico and  
15 defendants are all headquartered outside of Puerto Rico, where  
16 the representations that were made in Puerto Rico with  
17 regard -- I mean were made outside of Puerto Rico, where the  
18 bonds were sold almost entirely outside of Puerto Rico, we  
19 think, under Puerto Rico choice of law rules, Puerto Rico law  
20 does not apply here.

21 The next factor -- and again, Your Honor, I think the  
22 central point here is they're the ones that are trying to  
23 convince you that state law predominates, and more  
24 specifically, that Puerto Rico law predominates, because if  
25 New York law controls here, that does not support a remand to

1 a Puerto Rico court.

2           It's their burden to convince you that Puerto Rico  
3 law predominates, and there are very serious reasons to think  
4 that Puerto Rico law doesn't apply here. Assuming for a  
5 second, for the purposes of the next point, the physical  
6 reasons for asserting state law -- assuming for the moment  
7 that Puerto Rico law does apply and they have this claim that  
8 is so difficult, we've cited a large number of cases where  
9 federal courts have applied the Puerto Rico law. In none of  
10 them did the courts say it was too difficult for them to  
11 understand.

12           The case they cited from the Puerto Rico Supreme  
13 Court about confusion in the doctrine was criticizing lower  
14 Puerto Rico courts for their confusion. It wasn't  
15 predominantly a case about confusion by federal courts.

16           And thankfully, the central issue is that if we ever  
17 get to Puerto Rico law, Puerto Rico law will only come into  
18 play if they can establish a misrepresentation. That is, that  
19 we didn't comply with federal law when we said that we did.  
20 But there are some very obvious defenses under Puerto Rico law  
21 that are not going to expire in several enumerations of this  
22 doctrine.

23           The Puerto Rico Supreme Court has said that, for  
24 example, the "unilateral declaration of will" doctrine  
25 requires showing an unmistakable intention to be bound. And

1 it couldn't be more unmistakable that there was no such  
2 intention, because the offering documents themselves say we  
3 don't guarantee the accuracy of these statements. So I think  
4 the prospect that this is going to turn on niceties of Puerto  
5 Rico law is quite remote.

6 Secondly, I don't think there's any comity interest  
7 here, which is the next factor highly related to the fact that  
8 the actions are, as we just said --

9 (Sound played.)

10 MR. NEIMAN: There's no right to a jury trial here,  
11 so that factor weighs against remand.

12 And the next factor -- this case is sort of like  
13 *Vitol*, where Your Honor thought remand was appropriate because  
14 a lot of things were alleged, involving removal over a forum  
15 selection clause, and court documents that were pending for  
16 years prior to the removal to the Title III court, and state  
17 law, unlike the claims here, did not turn on the question of  
18 whether defendants' conduct complied with federal law. So all  
19 the traditional elements, we think, weigh against  
20 discretionary remand.

21 Just a couple of other factual points that I want to  
22 note, and then I'll get quickly to "arising under"  
23 jurisdiction --

24 THE COURT: You are under two minutes now, so make  
25 your choices.

1                   MR. NEIMAN: I'm sorry, Your Honor. How much time do  
2 I have left?

3                   THE COURT: Less than two minutes. You had one  
4 beep.

5                   MR. NEIMAN: Oh, Your Honor, I'm sorry. I thought I  
6 heard that earlier.

7                   Okay. Very quick here. I think, as a practical  
8 matter, it makes much more sense for Your Honor to be managing  
9 this case. The discovery is going to be largely directed  
10 against the debtor, because they did allege there were false  
11 statements in the offer documents, statements alleged to come  
12 from the debtor.

13                   It makes much more sense for Your Honor to be in a  
14 position to sequence the legal issues in this case so that it  
15 can be resolved on a schedule that makes sense with the  
16 bankruptcy. We are committed to working with the Court to do  
17 that as quickly as possible. And I think you also want to  
18 avoid the prospect of inconsistent judgments if this case is  
19 remanded.

20                   And if we prevail in state court on the claim that  
21 clawback was lawful, that would be binding on Ambac. It might  
22 be different than the conclusion Your Honor would reach. Or,  
23 vice versa, we might lose. You might find clawback is lawful  
24 and state court might find it's unlawful. It doesn't make any  
25 sense to create a possibility of inconsistent judgments.

1           Then we turn, finally, Your Honor, to "arising under"  
2 jurisdiction. I think everybody agrees that the *Gunn* and  
3 *Grable* tests apply here. I don't think there is any  
4 reasonable dispute that there are federal issues in this case,  
5 given how the Complaint is written, and the only  
6 misrepresentation that they've identified --

7           (Sound played.)

8           THE COURT: You can complete this thought.

9           MR. NEIMAN: Yeah. Thank you, Your Honor.

10           And I would just say that we think that not only are  
11 they present and necessary, but they're quite substantial  
12 decisions about whether, as the plaintiffs have alleged, due  
13 diligence somehow requires looking back at all prior offering  
14 documents and confirming their accuracy each time you  
15 underwrite an offering, or whether we have to follow up and  
16 monitor whether the issue was identified differently than in  
17 the offering documents.

18           Those are claims and duties under the federal  
19 securities laws that we think don't exist here. They're  
20 actually presented in this case, and would be quite  
21 disruptive, even more to the market of municipal bonds, if the  
22 state court were then to determine that there were such  
23 obligations.

24           And so, overall, we think there is "arising under"  
25 jurisdiction here, there is "related to" jurisdiction here,

1 and discretionary remand would not be appropriate under the  
2 settled law governing discretionary remand.

3 Thank you so much for your attention, Your Honor.  
4 It's so good to be in front of you again.

5 THE COURT: Thank you, Mr. Neiman.

6 And now we have Ms. Beville for the Special Claims  
7 Committee and the Oversight Board for four minutes.

8 Ms. Ng, would you make sure that Ms. Beville is  
9 unmuted on your end?

10 MS. NG: Yes, I will, Judge.

11 THE COURT: Thank you.

12 Ms. Beville?

13 Ms. Ng, is Ms. Beville on the dashboard?

14 MS. NG: Judge, I don't see her on.

15 THE COURT: If there is anyone else who is intending  
16 to make this argument for the Special Claims Committee, would  
17 you do the little hand wave thing on the dashboard?

18 And Ms. Ng, would you tell me if you see anyone  
19 waving their hand on the dashboard?

20 MS. NG: Will do.

21 Nobody's waving their hand.

22 THE COURT: All right. Then we will go on to the  
23 rebuttal arguments. And I have Mr. Selendy first for three  
24 minutes.

25 Would you unmute, Mr. Selendy?

1 MR. SELENDY: Yes. Thank you. Can you hear me, Your  
2 Honor?

3 THE COURT: Yes, I can. Thank you.

4 MR. SELENDY: Okay. Thank you.

5 Let me begin by saying that the idea that a stay of  
6 execution is collusion is ridiculous. This Court approved  
7 exactly that in *Vitol* and in *ASP*. And as to magnitude, the  
8 *Vitol* case involved 3.9 billion dollars at issue for the  
9 debtor.

10 I'll note that the banks remain still uncertain about  
11 the applicable law, including the choice of law. That favors  
12 remand, as this Court held in *Sealink*.

13 In addition, Mr. Neiman said there is no case that  
14 addresses the question of equitable defenses as to Puerto  
15 Rico's statutory subrogation statute. That's incorrect. It's  
16 -- *Eastern Sands* from the Supreme Court of Puerto Rico, which  
17 said unequivocally that subrogation is automatic. And this  
18 is, frankly, part of the bank's pattern of disregard for  
19 Puerto Rico law.

20 As to the substitution of creditors, we cited both  
21 *Santa Clara* and the DPR case of *In re C&A*. Mr. Neiman in  
22 response did not raise any First Circuit case and instead  
23 invoked out of the circuit law, *SPV* and *Worldcom*.

24 Your Honor asked the question about the absence of a  
25 private right of action. That unequivocally favors remand as



1 held in the case of *Mays v. Flint*. There is no question that  
2 the insurers here cannot assert claims under the federal  
3 securities laws, and there is no private right of action under  
4 15c2-12.

5 As to context, the Complaint does allege problems in  
6 the deals and the background rules in the federal securities  
7 laws, but that sets the basis for our review of underwriter  
8 due diligence. The question on the Complaints is simply  
9 whether the banks violated their assurances of due diligence  
10 as gate keepers to the market under the Puerto Rico equitable  
11 doctrines. For example, the National Complaint, paragraphs  
12 248, 7 to 19, 93 to 94.

13 I'll note that Mr. Neiman failed to address the First  
14 Circuit case of *Municipality of Mayaguez*, which is directly on  
15 point on this issue, as well as the Supreme Court case of  
16 *Merrill Lynch v. Manning*.

17 It doesn't matter if defendant's conduct violates  
18 federal law as well as Puerto Rico law. The question is not  
19 about commonality of fact, as *Pacor* and *In re VideOcart* may  
20 claim, but whether there is a conceivable impact. And as we  
21 demonstrated earlier, both through automatic subrogation and  
22 because of the contingency and conditionality of the bank's  
23 indemnification and contribution claims, there is no such  
24 impact.

25 Thank you, Your Honor.

1 THE COURT: Thank you.

2 MR. SELENDY: If you have any further questions, I'll  
3 be glad to address them.

4 THE COURT: Thank you. I do not.

5 MR. SELENDY: Thank you.

6 THE COURT: And now Mr. Pickhardt, who has reserved  
7 two minutes.

8 MR. PICKHARDT: Your Honor, John Pickhardt on behalf  
9 of Ambac. Are you able to hear me?

10 THE COURT: Yes, I can. Thank you.

11 MR. PICKHARDT: Your Honor, I will also be very  
12 brief.

13 The Underwriters' briefs in support of remand of  
14 National's case and its impact to Puerto Rico focus almost  
15 entirely on the fact that the debtors were issuers. In my  
16 arguments pointing out that, for Ambac's case, the issuers are  
17 not debtors, Mr. Neiman was focused primarily on suggesting  
18 that, nonetheless, debtor's conduct is at issue, because the  
19 Commonwealth clawback of funds would somehow be prevented from  
20 adjudication in these proceedings. That is  
21 simply inaccurate.

22 The claims that are being asserted by Ambac, like  
23 National's, concern statements that were made by the  
24 underwriter at the time of the bond issuances and concerning  
25 the due diligence that they conducted; and it will be those

1 statements and the basis for those statements that will be  
2 adjudicated, not for propriety of the clawback that occurred a  
3 decade or more later.

4 And so while Ambac has taken issue with the propriety  
5 of the clawback, that is not something that is present for  
6 adjudication in this case. And we think, Your Honor, that  
7 that is, frankly, one of the reasons that the Oversight Board  
8 has agreed with Ambac that this is not a case that concerns or  
9 implicates any conduct or obligations of the debtors. And  
10 Mr. Neiman's arguments do not, you know, convincingly suggest  
11 otherwise.

12 I have nothing further, Your Honor, unless you have  
13 any questions.

14 THE COURT: No, I don't. Thank you.

15 I have just received a message that Tristan Axelrod  
16 from the SCC is raising his hand. And I believe he's  
17 Ms. Beville's colleague.

18 And so, Ms. Ng, can you unmute Mr. Axelrod?

19 And, Mr. Axelrod, I apologize for having skipped you  
20 over.

21 MS. NG: Judge, I --

22 MR. AXELROD: Thank you, Judge Swain. Are you able  
23 to hear me now?

24 THE COURT: Yes, I am. Sorry about that.

25 MR. AXELROD: Thank you. I was disconnected earlier

1 the moment I was called, and I apologize for the delay.

2 May it please the Court. These are motions to remand  
3 litigation concerning bond issuances and the conduct of  
4 financial professionals and government officials in connection  
5 with those issuances. Specifically, the Ambac litigation  
6 concerns PRIFA bonds issued in 2005 and PRCCDA bonds issued in  
7 2006. The National litigation concerns PREPA, HTA and COFINA  
8 bonds issued between 2001 and 2007.

9 The Special Claims Committee, the SCC, has a mandate  
10 to preserve and prosecute litigation claims belonging to the  
11 Title III debtors. Pursuant to that mandate, we have  
12 initiated a variety of litigation, including litigation  
13 alleging misconduct by financial professionals in connection  
14 with bond issuances. And specifically, that can be found at  
15 Adversary Proceeding 19-280, among others.

16 Due to the possibility of confusion between  
17 litigation brought by the SCC and Ambac and the facts inherent  
18 to that litigation, the SCC filed an informative motion  
19 regarding the Ambac remand motion. To repeat the substance of  
20 that informative motion, the SCC has not commenced any  
21 litigation relating to PRIFA and PRCCDA bonds that are the  
22 subject of Ambac's litigation. The SCC is unaware of any  
23 facts at issue in Ambac's litigation that would be common to  
24 any litigation brought by the SCC.

25 Certain parties have since inquired to the SCC

1 regarding the National litigation. Although the SCC filed no  
2 formal statement regarding the National remand motion, the  
3 same is true regarding that litigation. The SCC has not  
4 commenced litigation relating to the PREPA, HTA and COFINA  
5 bonds subject to National's litigation and is unaware of any  
6 facts at issue therein that would be common to any litigation  
7 brought by the SCC.

8 To be very clear, the SCC has not commenced  
9 litigation relating to the bonds at issue in either the Ambac  
10 or National Complaints, or any bond issuance or other  
11 transaction from the same time period. Certain parties have  
12 approached the Oversight Board regarding the potential effects  
13 of the Ambac and National litigation on the Title III  
14 proceedings, and the Court has heard a fair amount on that  
15 subject today. And the SCC has reviewed those arguments and  
16 the underlying facts.

17 The Oversight Board takes no position regarding the  
18 propriety of an exercise of "related to" jurisdiction in this  
19 instance, and likewise has no legal position as to the  
20 applicability of "arising under" jurisdiction. More  
21 specifically, from the perspective of the Oversight Board, the  
22 outcome of the Ambac and National litigation is not material  
23 to any amounts paid by the debtors through and after the Title  
24 III proceedings as treatment of allowed claims. It is  
25 certainly possible that the Ambac and National litigation

1 | could impact the reconciliation and distribution on claims in  
2 | the Title III cases, but those claims are not ripe for  
3 | presentation and reconciliation at this time. And the  
4 | Oversight Board declines at this time to devote resources to  
5 | projecting the outcome of this litigation and its attendant  
6 | effect on Title III proceedings and distributions.

7 |         Again, we acknowledge it is possible that the outcome  
8 | of this litigation could impact claims reconciliation and  
9 | payments, and we take no position as to whether such impact  
10 | justifies an exercise of this Court's jurisdiction.

11 |         If Your Honor has no further questions, I'll  
12 | conclude.

13 |         THE COURT: Thank you. I have no further questions.  
14 | Thank you, Mr. Axelrod.

15 |         MR. AXELROD: Thank you.

16 |         THE COURT: And since Mr. Axelrod did end up speaking  
17 | out of turn because of the technological issues, does  
18 | Mr. Selendy or Mr. Pickhardt wish to say anything further by  
19 | way of rebuttal?

20 |         First, Mr. Selendy?

21 |         Ms. Ng, make sure he's unmuted, please.

22 |         MR. SELENDY: I am here, Your Honor. Nothing  
23 | further. Thank you.

24 |         THE COURT: Thank you.

25 |         Mr. Pickhardt?

1 MR. PICKHARDT: Your Honor, nothing further from me  
2 either. Thank you.

3 THE COURT: Thank you so much.

4 I have reviewed carefully the submissions and  
5 listened carefully to everything that has been said here this  
6 morning. I will now make an oral ruling in respect of these  
7 motions.

8 Before the Court are *Plaintiffs' Motion for Remand*  
9 *and Memorandum in Support Thereof*, Docket Entry No. 31, in  
10 Adversary Proceeding No. 19-422 -- I'll refer to that as the  
11 "National Motion" -- and *Plaintiff's Motion for Remand and*  
12 *Memorandum in Support*, which is at Docket Entry No. 22 in  
13 Adversary Proceeding No. 20-47, which I'll refer to as the  
14 "Ambac Motion". And I will refer to the two motions together  
15 as the "Motions".

16 The Motions were filed by the Plaintiffs in the  
17 adversary proceedings, whom I will refer to as National and  
18 Ambac, respectively. Each of the Motions requests entry of an  
19 order remanding the Adversary Proceeding to the Commonwealth  
20 Court of First Instance. The Motions are opposed by the  
21 Defendants in the adversary proceedings, each of which is an  
22 underwriter that was involved in certain issuances of bonds by  
23 the Commonwealth of Puerto Rico and certain Commonwealth  
24 instrumentalities.

25 The Court has considered carefully the parties'

1 | submissions and the arguments made on the record today. The  
2 | Court now makes its oral ruling as to the motions, and  
3 | reserves the right to make non-substantive corrections in the  
4 | transcript of this ruling. The Motions are granted for the  
5 | following reasons.

6 |         The Court will begin by addressing whether it has  
7 | subject matter jurisdiction of the adversary proceedings.

8 |         As a threshold matter, the Motions contend that the  
9 | Court lacks federal question jurisdiction of the adversary  
10 | proceedings. The Court agrees.

11 |         Federal district courts are authorized by statute to  
12 | exercise jurisdiction over "all civil actions arising under  
13 | the Constitution, laws, or treaties of the United States." 28  
14 | U.S.C. Section 1331. There are two means by which a case can  
15 | "arise under" federal law. See *Gunn v. Minton*, 568 U.S. 251,  
16 | 257, (2013) decision.

17 |         First, most directly and most commonly, federal  
18 | question jurisdiction can be 'invoked by plaintiffs pleading a  
19 | cause of action created by federal law.' ... *Municipality of*  
20 | *Mayaguez v. Corporacion Para el Desarrollo del Oeste, Inc.*,  
21 | 726 F.3d 8, 13 (1st Cir. 2013) (quoting *Grable & Sons Metal*  
22 | *Prods., Inc. v. Darue Eng'g & Mfg.*, 545 U.S. 308, 312  
23 | (2005)).

24 |         Second, federal question jurisdiction can arise in a  
25 | "'special and small category' of cases" in which a plaintiff



1 pleads a state law cause of action that "involves important  
2 federal issues." I again cite *Mayaguez*, 726 F.3d at 13, at  
3 this point quoting *Empire Healthchoice Assurance, Inc., v.*  
4 *McVeigh*, 547 U.S. 677, 699 (2006).

5 In the latter situation, however, "the mere presence  
6 of a federal issue in a state cause of action does not  
7 automatically confer federal-question jurisdiction." *Nashoba*  
8 *Commc'ns Ltd. P'ship No. 7 v. Town of Danvers*, 893 F.2d 435,  
9 438 (1st Cir. 1990) (quoting *Merrell Dow Pharm. Inc. v.*  
10 *Thompson*, 478 U.S. 804, 813 (1986)). Rather, to assess  
11 whether subject matter jurisdiction exists with respect to a  
12 state law claim that raises a federal issue, courts assess  
13 whether the state-law claim "necessarily raise[s] a stated  
14 federal issue, actually disputed and substantial, which a  
15 federal forum may entertain without disturbing any  
16 congressionally approved balance of federal and state judicial  
17 responsibilities." *Grable*, 545 U.S. at 314.

18 The Complaints do not plead federal causes of action.  
19 Further, the Court concludes that the *Grable* "substantial  
20 federal question" basis for jurisdiction is not present  
21 because any federal issues that may be litigated in connection  
22 with the adversary proceedings are neither necessarily raised  
23 by the Complaint such that the Court would be required to  
24 address them in order to resolve the issues that are raised in  
25 the Complaints, nor substantial such that they are of

1 importance to the federal system as a whole.

2           At their core, the Complaints allege that the  
3 insurance applications submitted to Plaintiffs contained  
4 misleading information, misrepresentations, and omissions.  
5 Plaintiffs allege that they were thereby induced by Defendants  
6 to provide insurance for certain bond issuances. While the  
7 Complaints reference due diligence obligations arising under  
8 federal law, the alleged breaches for which Plaintiffs seek  
9 damages are not breaches of federal law-imposed obligations.  
10 Rather, the Complaints seek damages pursuant to Commonwealth  
11 law on account of Plaintiffs' alleged detrimental reliance on  
12 the bundle of information submitted in connection with the  
13 insurance applications.

14           The potential presence of federal law affirmative  
15 defenses such as the statute of repose under the  
16 Sarbanes-Oxley Act is not a proper basis for exercising  
17 federal jurisdiction. *See Greenwich Fin. Servs. Distressed*  
18 *Mortg. v. Countrywide Fin. Corp.*, 654 F. Supp. 2d, 192, 203  
19 (S.D.N.Y. 2009).

20           It is certainly likely that the parties will look to  
21 the requirements of federal law, including SEC Rule 15c2-12  
22 (including case law or other persuasive interpretations of  
23 those requirements) to support their arguments that  
24 Defendants' conduct was or was not within the range of  
25 diligence that might reasonably have been expected in light of

1 any representations that they made to Plaintiffs. But those  
2 arguments are not "necessarily raised" by the Complaint, which  
3 grounds its request for relief in substantive doctrines of  
4 Commonwealth law.

5 While the obligations purportedly imposed by those  
6 doctrines may overlap with those imposed by federal law, the  
7 mere overlap of issues between state law causes of action and  
8 federal causes of action is not sufficient to support federal  
9 jurisdiction. *Merrill Lynch, Pierce, Fenner & Smith, Inc. v.*  
10 *Manning*, 136 S. Ct. 1562, 1574 (2016) in which the Court noted  
11 that, notwithstanding the federal courts' exclusive  
12 jurisdiction over all suits "brought to enforce any liability  
13 or duty created by" the Securities Exchange Act, "Congress  
14 specifically affirmed the capacity of [state] courts to hear  
15 state-law securities actions, which predictably raise issues  
16 coinciding, overlapping, or intersecting with those under the  
17 [Exchange] Act itself."

18 Nor do the Complaints present substantial federal  
19 issues. The substantiality inquiry "demands that a federal  
20 question must be not only important to the parties, but  
21 important to the federal system." *Municipality of Mayaguez*,  
22 726 F.3d at 14. The First Circuit has described two  
23 situations that can meet the substantiality requirement:

24 First, an issue may be substantial where the  
25 outcome of the claim could turn on a new

1 interpretation of a federal statute or regulation  
2 which will govern a large number of cases. In other  
3 words, a case is more likely to be important to the  
4 federal system as a whole if it presents "a nearly  
5 'pure issue of law ... that could be settled once  
6 and for all'" rather than an issue that is  
7 "fact-bound and situation-specific" and whose  
8 holding will more likely be limited to the facts of  
9 the case.

10 ...

11 Second, a federal issue may also be substantial  
12 where the resolution of the issue has "broader  
13 significance ... for the Federal Government."

14 *Id.* (citations omitted) As explained earlier, the Complaints  
15 do not seek to enforce Rule 15c2-12, and the parties are in  
16 agreement that the Plaintiffs lack a private right of action  
17 through which they could enforce Rule 15c2-12, so the  
18 Complaints do not raise an issue of whether private Plaintiffs  
19 may enforce that rule. Moreover, even if Defendants are  
20 correct that the Complaints effectively challenge their  
21 conduct as being inconsistent with federal law, the question  
22 of whether Defendants operated in a manner consistent with  
23 their due diligence obligations with respect to certain  
24 issuances of bonds is fact intensive and lacks broader  
25 significance for the federal government, and thus lacks

1 substantiality.

2           The Court now turns to whether the adversary  
3 proceedings are "related to" the Title III cases.

4           Section 306(a)(2) of PROMESA confers on district  
5 courts "original but not exclusive jurisdiction of all civil  
6 proceedings arising under [PROMESA], or arising in or related  
7 to cases under [PROMESA]." 48 U.S.C. Section 2166(a)(2). The  
8 jurisdictional language of Section 306(a)(2) is analogous to  
9 that of the bankruptcy jurisdiction statute, 28 U.S.C. Section  
10 1334(b).

11           The First Circuit has recognized the well-established  
12 *Pacor* standard for determining whether a proceeding is  
13 "related to" a bankruptcy case. *In re Santa Clara County*  
14 *Child Care Consortium*, 223 B.R. 40, 45 (B.A.P. 1st Cir. 1998)  
15 (citations omitted).

16           That standard holds that "related to" jurisdiction  
17 exists when "the outcome of [the] proceeding could conceivably  
18 have any effect on the estate being administered in  
19 bankruptcy." *Pacor, Inc. v. Higgins*, 743 F.2d 984, 994 (3d  
20 Cir. 1984) (internal citations omitted).

21           Although the proceeding "need not necessarily be  
22 against the debtor or against the debtor's property," its  
23 "outcome" must be one that "could alter the debtor's rights,  
24 liabilities, options or freedom of action (either positively  
25 or negatively)" and in some way "impact[] ... the handling and

1 administration of the bankruptcy estate." *Id.*

2           Although the parties to the adversary proceedings are  
3 not Title III Debtors, the outcome of the adversary  
4 proceedings could conceivably affect the Title III cases.  
5 Plaintiffs have asserted claims against the Title III Debtors,  
6 and any recovery in the adversary proceedings will reduce the  
7 amount of the claims that Plaintiffs may assert against the  
8 Title III Debtors. While Plaintiffs argue that Defendants  
9 would be subrogated to their claims by operation of  
10 Commonwealth law, resulting in a mere substitution of  
11 creditors rather than a net change in the Debtors'  
12 liabilities, Defendants have noted potential counterarguments  
13 and defenses that the Title III Debtors would likely raise in  
14 that scenario. Thus, it is conceivable that the adversary  
15 proceedings would change not only the identity of the  
16 creditors, but would affect the Title III debtors' "rights,  
17 liabilities [or] options" by providing them with new defenses  
18 to claims prosecuted by Defendants and with potential net  
19 reductions in the total amount of claims.

20           Accordingly, the adversary proceedings are  
21 distinguishable from the situation before the Court in *Santa*  
22 *Clara*, where there was no apparent question that the  
23 declaratory judgment action would, if successful, simply swap  
24 one creditor for another, with no change in overall  
25 liabilities. Thus, the Court concludes that it has "related

1 to" jurisdiction of the adversary proceedings pursuant to 48  
2 U.S.C. Section 2166(a). Such jurisdiction is not, however,  
3 exclusive. Accordingly, the Court turns to the Movants'  
4 requests for equitable remand.

5 Although the Court has the authority to exercise  
6 jurisdiction of the adversary proceedings, it will, in the  
7 exercise of its discretion, grant Plaintiffs' request to  
8 equitably remand the adversary proceedings.

9 Section 306(d) of PROMESA permits the Court to remand  
10 adversary proceedings "on any equitable ground." 48 U.S.C.  
11 Section 2166(d)(2). Under the similar statutory provision  
12 that applies to bankruptcy cases, courts in the First Circuit  
13 look to the following non-exclusive list of factors in  
14 determining whether equitable remand of a bankruptcy-related  
15 claim or cause of action is appropriate:

16 (1) the effect of the action on the  
17 administration of the bankruptcy estate; (2) the  
18 extent to which issues of state law predominate;  
19 (3) the difficulty of applicable state law; (4)  
20 comity; (5) the relatedness or remoteness of the  
21 action to the bankruptcy case; (6) the existence of  
22 the right to a jury trial; and (7) prejudice to  
23 the involuntarily removed party.

24 *Santa Clara*, 223 B.R. at 46. The most relevant factors here  
25 strongly support remand of the adversary proceedings.

Factors one and five support remand. The adversary proceedings are disputes among non-debtors. Although the outcome of the adversary proceedings may change the mix of creditors and may affect the amount of the Title III Debtors' liabilities, those considerations would, at most, only affect creditors' recoveries to some degree. There is no indication that the outcomes of the adversary proceedings will materially help, hinder, or otherwise affect the actual administration of the Title III cases and the restructuring process. At the same time, there is a significant breadth, depth, and urgency of adversary proceedings and contested matters already pending in connection with these Title III cases, and retention of the instant adversary proceedings would entail further burdening of this Court's limited resources and the risk of trade offs with the efficient resolution of core Title III matters.

With respect to the second, third, and fourth factors, state law issues are significant and may require reference to bodies of law that are unique to the Commonwealth. Merely determining the applicable substantive law will require reference to Commonwealth choice of law principles. And, to the extent that Commonwealth substantive law applies, the underlying claims are not common law causes of action that exist in most states. The Court believes that the expertise of the Commonwealth Courts in applying Commonwealth law will aid in the efficient and just resolution



1 of the adversary proceedings. Thus, these factors support  
2 remand.

3 Accordingly, the Court will enter an order granting  
4 the Motions for the reasons stated on the record today.

5 That concludes the formal portion of the Agenda. I  
6 am a bit concerned that, because of our technical set up, I  
7 may have missed anyone who wanted to make some comments on the  
8 reports of AAFAF and the Oversight Board.

9 Ms. Ng, is it possible for you to unmute the people  
10 with speaking lines or, very carefully, for hands' raised, or  
11 both, so I can make sure that I didn't skip over anyone?

12 MS. NG: Okay. I don't see any hands raised so far.  
13 And people are able to unmute and mute themselves, so I guess  
14 if anybody wants to talk, they can unmute themselves.

15 THE COURT: Okay. So you don't have any muting on  
16 them that would block them from unmuting themselves?

17 MS. NG: No. No.

18 THE COURT: All right. I will wait 20 seconds, and  
19 if I hear a voice, I will call on that person.

20 All right. That was 20 seconds. Thank you all for  
21 helping me make sure that I hadn't denied anyone the  
22 opportunity to speak who was looking to speak.

23 There are a number of matters that are adjourned to  
24 future Omnis. Those are all listed on the Agenda filed at  
25 13847 in the 17-3282 case.

1 And so this concludes the hearing Agenda for the July  
2 Omnibus Hearing. The next scheduled hearing date is the  
3 September Omnibus Hearing scheduled for September 16th to  
4 17th, 2020. I expect that hearing to occur telephonically as  
5 well. And the Court will issue a procedures order providing  
6 appropriate logistical details closer to the date of that  
7 hearing.

8 Additionally, I would like to remind everyone that  
9 the operative Case Management Order (Docket Entry No. 13512-2)  
10 does not require the parties to serve paper courtesy copies of  
11 the pleadings on the Court. (See also Docket Entry No. 3730,  
12 ¶3). So please refrain from sending paper courtesy copies  
13 until further notice in light of the limited physical presence  
14 of staff at the courthouses currently. And thank you for  
15 cooperating with that request and being mindful of the  
16 provisions of the Orders.

17 As always, I would like to thank the court staff in  
18 Puerto Rico, Boston, and New York for their work in preparing  
19 for and conducting today's hearing, and their superb ongoing  
20 support of these very complex cases under very challenging  
21 circumstances.

22 Stay safe and keep well, everyone. And we  
23 particularly wish all who are on the island safety in the  
24 coming tropical storm. Take care. We are adjourned.  
25 Good-bye.

1 (At 11:30 AM, proceedings concluded.)

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1 U.S. DISTRICT COURT )  
2 DISTRICT OF PUERTO RICO)

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4 I certify that this transcript consisting of 76 pages is  
5 a true and accurate transcription to the best of my ability of  
6 the proceedings in this case before the Honorable United  
7 States District Court Judge Laura Taylor Swain, and the  
8 Honorable United States Magistrate Judge Judith Gail Dein on  
9 July 29, 2020.

10

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13 S/ Amy Walker

14 Amy Walker, CSR 3799

15 Official Court Reporter

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<p>&lt; Dates &gt; August 24th 14:5 July 27 7:15 July 29, 2020 1:16, 5:2, 76:9 September 16th 74:3 September 8th 10:13 'special 64:25 (1) 71:16 (2) 71:17 (2013) 64:16 (3) 71:19 (4) 71:19 (5) 71:20 (6) 71:21 (7) 71:22</p> <p>&lt; 1 &gt; 1,000 12:4, 12:7, 12:9 11 15:12 11:30 75:1 13 64:21, 65:2 13(a 20:14 1331. 64:14 1334(b 69:10 13512-2) 74:9 136 67:10 13847 7:16, 73:25 13870 8:9 13874 8:9 14. 67:22 15 15:3 1562 67:10 1574 67:10 15c2-12 57:4, 66:21, 68:15, 68:17 17-3282 73:25 17-3283 5:18, 7:16 17-3283. 8:10 17-BK-3283(LTS 1:6, 2:20 17-BK-4780(LTS 1:23, 2:6 17th 74:4 18 34:14 19 57:12 19-280 60:15 19-422 15:8, 63:10</p>	<p>19-AP-00422(LTS 2:3 192 66:18 1984) 69:20 1986) 65:10 1990) 65:9 1998) 69:14 1st 64:21, 65:9, 69:14</p> <p>&lt; 2 &gt; 20 10:19, 13:1, 13:22, 15:4, 42:15, 73:18, 73:20 20-047. 15:10 20-47 63:13 20-AP-00047(LTS 2:18 2001 60:8 2005 60:6 2005) 64:23 2006 65:4 2006. 60:7 2007. 60:8 2009). 66:19 2013) 64:21 2016 67:10 2018 19:23 2020 74:4 203 66:18 21 10:12, 11:19 2166(a 71:2 2166(a) (2 69:7 2166(d) (2 71:11 22 15:9, 63:12 223 69:14, 71:24 248 57:12 251 64:15 257 64:16 28 34:3, 64:13, 69:9 2d 66:18</p> <p>&lt; 3 &gt; 3). 74:12 3.9 56:8 30 10:19, 11:23, 23:1 306(a) (2 69:4, 69:8 306(d 71:9</p>	<p>308 64:22 31 15:8, 63:9 312 64:22 314. 65:17 3248 17:15 3248(1) 17:16 3248(3) 17:18 3730 74:11 3799 76:14 3: 1:6, 1:23, 2:3, 2:6, 2:18, 2:20 3d 69:19</p> <p>&lt; 4 &gt; 40 10:19, 13:1, 13:22, 69:14 435 65:8 438 65:9 45 69:14 46. 71:24 478 65:10 48 69:7, 71:1, 71:10 490 36:4</p> <p>&lt; 5 &gt; 545 64:22, 65:17 547 65:4 568 64:15 57 40:6, 46:10</p> <p>&lt; 6 &gt; 60 11:23, 13:24, 15:10 60-day 11:17 654 66:18 677 65:4 699 65:4</p> <p>&lt; 7 &gt; 7 57:12, 65:8 720 48:19 726 64:21, 65:2, 67:22 743 69:19 76 76:4</p>
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

<p>&lt; 8 &gt; 8 64:21 804 65:10 813 65:10 893 65:8</p> <p>&lt; 9 &gt; 90 40:8, 46:11 9006(b)(1 19:24 93 57:12 94. 57:12 984 69:19 994 69:19 9:42 5:3 [exchange] 67:17 [or] 70:17 [PROMESA] 69:6 [PROMESA]. 69:7 [state] 67:14 [the] 69:17</p> <p>&lt; A &gt; AAA 11:3 AAFAF 8:6, 8:11, 14:15, 14:16, 14:20, 73:8 ability 76:5 able 11:8, 11:16, 29:14, 29:23, 58:9, 59:22, 73:13 absence 44:21, 56:24 Absolutely 5:10, 41:12, 46:2, 46:20, 47:13 acceptable 11:4 acceptances 12:6 accepted 16:22 accessing 6:10 accommodate 11:8 accordance 25:14, 46:14 according 17:2, 26:3, 26:21 Accordingly 70:20, 71:3, 73:3 account 66:11 accounts 13:12,</p>	<p>13:16 accuracy 52:3, 54:14 accurate 7:7, 34:23, 76:5 Acevedo 21:20 acknowledge 62:7 Act 25:20, 66:16, 67:13, 67:17 action 29:7, 46:18, 47:25, 56:25, 57:3, 64:19, 65:1, 65:6, 65:18, 67:7, 67:8, 68:16, 69:24, 70:23, 71:15, 71:16, 71:21, 72:23 actions 32:15, 33:17, 52:8, 64:12, 67:15 actor 22:20 Actos 16:10, 16:15, 21:15, 25:10, 25:16, 26:1, 27:15, 27:23, 28:2, 28:6, 28:24 acts 25:19, 28:25 actual 72:8 actualize 29:3 actually 13:20, 34:14, 38:12, 40:1, 40:4, 41:15, 54:20, 65:14 addition 20:16, 27:10, 32:7, 56:13 additional 8:15, 8:22, 14:17 Additionally 74:8 address 6:24, 8:23, 15:22, 15:25, 24:2, 25:7, 29:9, 33:14, 38:20, 57:13, 58:3, 65:24 addressed 28:3 addresses 56:14 addressing 34:22, 64:6 adjourned 73:23, 74:24 adjudicate 30:9 adjudicated 59:2</p>	<p>adjudicating 25:8 adjudication 58:20, 59:6 Administered 1:11, 1:28, 69:18 administration 17:9, 18:12, 19:1, 48:1, 49:4, 70:1, 71:17, 72:8 admission 43:25 admit 17:11, 22:24, 23:6 adopted 21:17, 28:23 ADR 8:13, 8:23, 9:19, 9:22, 9:23, 10:15, 11:20, 12:9, 12:20, 14:5 advance 7:8, 8:8 Advisory 3:24 advocating 16:7 affect 15:23, 43:12, 43:13, 70:4, 70:16, 72:4, 72:5, 72:8 affected 6:2 affecting 16:18 affirmative 66:14 affirmed 67:14 afternoon 8:4 Agency 3:23 Agenda 6:22, 7:14, 7:15, 8:5, 73:5, 73:24, 74:1 aggressive 36:6 ago 19:19, 19:24, 22:19, 34:14, 34:17, 42:15 agree 48:10, 48:16 agreed 43:14, 59:8 agreeing 48:24 Agreement 32:4, 43:23, 68:16 agreements 31:21, 31:24, 32:9, 32:12 agrees 40:17, 54:2, 64:10 aid 72:25 al 1:16, 2:5, 2:12, 2:27, 3:6, 5:18 alert 7:20</p>
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

all' 68:6	24:16, 59:19, 60:1	45:5, 55:23,
allegations 35:5	apparent 70:22	58:16, 59:10,
allege 53:10, 57:5,	appear 33:11	61:15, 64:1,
66:2, 66:5	APPEARANCES 3:1	66:23, 67:2
alleged 20:15,	appeared 30:18	arise 30:7, 64:15,
52:14, 53:11,	APPEARING 3:3	64:24
54:12, 66:8, 66:11	Appellate 36:16	arises 45:14
alleging 39:15,	applicability 61:20	arising 40:14,
60:13	applicable 56:11,	45:10, 52:22,
allocated 15:10,	71:19, 72:19	54:1, 54:24,
15:12	application 21:13,	61:20, 64:12,
allocation 7:24	27:7, 27:15	66:7, 69:6
allocations 7:13	applications 26:14,	arrangement 48:24
allotments 7:13	66:3, 66:13	Article 16:11, 25:13
allotted 7:10	applied 51:9	articles 27:12
allow 43:15, 46:25	applies 17:16,	articulate 47:23
allowed 19:20,	17:18, 17:22,	ASP 22:12, 56:7
25:18, 42:1, 61:24	49:10, 71:12,	aspect 9:21
almost 45:13, 50:18,	72:22	aspects 26:16
58:14	apply 28:10, 38:8,	assert 38:13, 38:17,
already 41:1, 45:9,	38:14, 50:20,	57:2, 70:7
48:1, 72:11	51:4, 51:7, 54:3	asserted 58:22, 70:5
alter 69:23	Applying 25:16,	asserting 16:8,
Although 36:22,	27:3, 72:24	39:3, 48:6, 51:6
61:1, 69:21, 70:2,	appreciate 12:25,	asserts 41:18
71:5, 72:2	34:19	assess 65:10, 65:12
America 5:14	approached 61:12	assist 9:20, 10:9,
American 16:14	appropriate 7:2,	29:13
among 60:15, 72:2	40:2, 45:22, 49:8,	Associate 27:17
amount 10:11, 10:17,	52:13, 55:1,	associated 10:24,
12:22, 18:23,	71:15, 74:6	31:17
48:17, 61:14,	approve 23:21	assume 38:10, 41:10
70:7, 70:19, 72:4	approved 23:20,	Assuming 15:4,
amounts 17:12, 61:23	56:6, 65:16	37:18, 45:17,
Amy 76:13, 76:14	approximately 10:19	51:4, 51:6
analog 16:15, 28:13	arbitration 10:25	Assurance 2:18,
analogous 35:13,	arbitrators 11:9	3:19, 22:9, 65:3
44:7, 49:20, 69:8	Argentina 27:1	assurances 16:21,
analogy 49:11, 49:15	argue 32:2, 41:25,	16:23, 22:18, 57:9
analysis 41:25	70:8	attempts 27:20
analyze 12:23	argued 32:11	attendant 62:5
analyzed 25:24	arguing 31:25, 32:17	attention 55:3
announce 5:9	argument 15:6,	attenuated 21:2,
answer 41:12	15:11, 29:12,	30:12, 31:4,
anticipate 10:12,	29:16, 30:11,	31:15, 32:19
10:15, 11:15,	31:4, 32:19, 34:1,	author 28:1
11:16, 11:22, 12:3	42:3, 45:11, 50:7,	Authority 1:33,
anticipated 44:25	55:16	3:24, 30:16,
anybody 43:20, 73:14	arguments 31:13,	30:17, 36:12,
apologize 7:8, 14:4,	33:2, 36:23, 45:2,	36:15, 71:5

authorized 64:11	20:6, 20:12,	block 73:16
automatic 18:15,	20:15, 20:20,	blocked 34:5
20:9, 20:24, 22:7,	21:22, 21:25,	Board 1:10, 1:27,
32:23, 36:25,	22:18, 22:24,	5:16, 7:15, 8:6,
37:17, 37:23,	23:6, 56:10, 57:9	8:11, 8:14, 8:18,
38:15, 44:15,	bar 12:12, 19:19,	11:11, 14:15,
56:17, 57:21	40:19, 44:23	33:7, 33:10,
automatically 17:14,	based 11:6, 12:5,	33:13, 55:7, 59:7,
17:22, 19:2, 65:7	16:11, 20:21,	61:12, 61:17,
available 7:16, 8:8,	28:14	61:21, 62:4, 73:8
37:5, 39:25, 45:18	basic 39:23, 49:16	Board. 33:12
avoid 53:18	basically 9:20,	bodies 72:18
Axelrod 3:29, 59:15,	46:15	bond 23:9, 30:12,
59:18, 59:19,	basis 10:17, 21:2,	30:14, 31:22,
59:22, 59:25,	23:8, 32:12,	36:3, 36:21,
62:14, 62:15,	32:24, 57:7, 59:1,	37:23, 40:21,
62:16	65:20, 66:16	41:2, 58:24, 60:3,
	batch 14:2	60:14, 61:10, 66:6
	bear 16:3, 27:2	bonds 16:9, 37:22,
< B >	bearing 27:14	38:4, 38:25, 39:2,
back 8:2, 19:22,	beep 53:4	39:5, 39:17,
45:8, 45:16, 54:13	begin 10:2, 56:5,	41:16, 41:20,
backdrop 5:23	64:6	46:3, 46:4, 50:18,
background 57:6	beginning 11:21	54:21, 60:6, 60:8,
backtrack 42:15	behalf 25:3, 29:23,	60:21, 61:5, 61:9,
bad 20:16	58:8	63:22, 68:24
balance 23:20,	behavior 25:21	Boston 43:9, 74:18
50:13, 65:16	believe 49:5, 59:16	bought 49:20
bandwidth 11:14	believes 72:23	bound 22:19, 51:25
bank 19:17, 19:22,	belonging 60:10	Branch 29:7
20:23, 56:18,	belongs 30:11	breaches 66:8, 66:9
57:22	best 26:19, 27:11,	breadth 72:10
Bankruptcy 19:7,	76:5	break 8:1
21:8, 21:20,	better 20:1, 26:24,	breaking 7:8
21:24, 36:4,	42:17	Brian 3:7, 8:23,
36:15, 40:19,	Beville 55:6, 55:8,	9:15
46:2, 48:1, 49:4,	55:12, 55:13,	brief 30:3, 36:13,
53:16, 69:9,	59:17	58:12
69:13, 70:1,	beyond 7:9	briefly 6:24, 28:20
71:12, 71:17,	BIAGGI 3:25, 14:19	briefs 58:13
71:21	BIENENSTOCK 3:6,	bring 22:1
bankruptcy-related	8:17, 8:18, 8:20,	bringing 10:14
71:14	8:21, 8:25, 9:4	broader 68:12, 68:24
bankruptcy. 69:19	bifurcate 11:10	brought 6:4, 33:12,
banks 16:20, 16:22,	big 38:12, 49:3	50:10, 60:17,
16:24, 17:2, 17:4,	billion 48:3, 56:8	60:24, 61:7, 67:12
17:7, 17:13,	binding 36:15,	Buenos 5:20
17:14, 17:16,	36:16, 42:5, 53:21	bundle 66:12
17:18, 18:4,	bit 11:10, 12:12,	burden 16:3, 45:19,
19:11, 19:25,	13:15, 49:6, 73:6	45:21, 45:25,



49:7, 49:8, 51:2  
burdening 72:13  
burdens 19:4  
business 36:7  
buzz 7:21, 7:22  
buzzes 7:21, 7:25  
  
< C >  
C&A 18:2, 18:20,  
56:21  
C. 3:25  
call 7:3, 15:1,  
41:24, 42:25,  
73:19  
called 60:1  
calling 6:19  
calls 42:4  
Cambridge 22:6  
capacity 67:14  
Care 8:11, 69:14,  
74:24  
carefully 8:10,  
63:4, 63:5, 63:25,  
73:10  
carry 27:8  
carves 20:14  
cases 16:7, 17:8,  
18:2, 18:19, 21:3,  
22:5, 22:14,  
25:14, 35:13,  
36:5, 36:18,  
37:20, 38:6, 44:7,  
46:6, 51:8, 62:2,  
64:25, 68:2, 69:3,  
69:7, 70:4, 71:12,  
72:9, 72:12, 74:20  
cash 37:22  
CAT 3:49  
category 64:25  
cause 64:19, 65:1,  
65:6, 71:15  
caused 27:21  
causes 65:18, 67:7,  
67:8, 72:22  
Center 30:16  
central 35:16,  
35:17, 39:11,  
44:9, 46:2, 47:17,  
50:22, 51:16

centuries 25:16  
Certain 60:25,  
61:11, 63:22,  
63:23, 66:6, 68:23  
certainly 33:18,  
36:8, 38:7, 38:16,  
43:13, 61:25,  
66:20  
certify 76:4  
challenge 21:9,  
22:21, 68:20  
challenges 5:24  
challenging 74:20  
chance 19:19, 47:18  
change 12:5, 12:14,  
17:7, 17:24,  
18:16, 18:17,  
19:2, 70:11,  
70:15, 70:24, 72:3  
changes 18:14  
check 38:4, 38:8,  
38:12  
Chief 24:1  
Child 69:14  
choice 50:8, 50:19,  
56:11, 72:20  
choices 52:25  
Cir 64:21, 65:9,  
69:14, 69:20  
Circuit 18:19,  
18:22, 19:13,  
20:7, 20:25,  
23:15, 35:15,  
36:12, 36:13,  
36:14, 43:8,  
56:22, 56:23,  
57:14, 67:22,  
69:11, 71:12  
circumstance 37:13,  
37:25, 38:11  
circumstances 5:23,  
7:1, 74:21  
citations 68:14,  
69:15, 69:20  
cite 65:2  
cited 35:13, 37:2,  
37:4, 37:14, 38:6,  
43:9, 44:21,  
46:19, 51:8,  
51:12, 56:20

Civil 16:11, 17:15,  
19:6, 21:16, 25:9,  
25:13, 25:15,  
25:23, 26:10,  
26:20, 26:25,  
27:4, 27:6, 27:11,  
28:10, 28:16,  
28:23, 29:2, 29:3,  
47:11, 64:12, 69:5  
claimants 12:6, 48:5  
claimed 17:12  
Clara 18:2, 18:20,  
36:12, 56:21,  
69:13, 70:22,  
71:24  
clarification 13:1  
clarity 6:21, 12:17  
classification  
17:25, 18:18  
clause 52:15  
clawback 39:4, 48:6,  
53:21, 53:23,  
58:19, 59:2, 59:5  
clear 23:12, 38:9,  
45:22, 61:8  
clearly 7:2, 15:1,  
35:17, 36:25,  
39:25, 45:4  
Clerk 7:17  
closely 35:13, 44:7  
closer 74:6  
closing 33:1  
co-counsel 15:19  
Code 16:12, 17:16,  
25:13, 26:20,  
28:16, 28:23  
Codes 25:9, 29:3,  
29:4  
codified 28:25  
COFINA 20:3, 60:7,  
61:4  
coinciding 67:16  
colleague 59:17  
colleagues 34:22  
collect 41:3, 41:4,  
48:10, 48:17,  
48:25  
collusion 56:6  
collusive 48:24  
comes 12:13

coming 12:20, 74:24  
Comity 21:5, 29:6,  
44:8, 52:6, 71:20  
Commc'ns 65:8  
commenced 60:20,  
61:4, 61:8  
comments 14:18,  
14:20, 14:24,  
15:5, 73:7  
commitments 16:18  
committed 53:16  
Committee 3:29,  
10:24, 16:6,  
19:21, 55:7,  
55:16, 60:9  
common 15:22, 16:15,  
27:13, 27:21,  
28:6, 28:7, 28:14,  
33:12, 44:16,  
60:23, 61:6, 72:22  
commonality 57:19  
commonly 64:17  
community 26:13  
comparative 27:18  
compared 21:23  
comparing 27:24  
complain 46:25  
Complaint 22:16,  
28:11, 30:10,  
30:13, 31:5, 35:3,  
35:18, 40:13,  
41:20, 45:12,  
45:14, 46:9,  
46:17, 46:23,  
47:3, 54:5, 57:5,  
57:11, 65:23, 67:2  
Complaints 19:23,  
35:5, 40:5, 46:10,  
57:8, 61:10,  
65:18, 65:25,  
66:2, 66:7, 66:10,  
67:18, 68:14,  
68:18, 68:20  
complete 22:8, 54:8  
completed 9:25  
complex 74:20  
complicated 15:2  
complications 19:7  
complied 47:4, 52:18  
comply 51:19

comprehensive 8:12  
computer 6:11, 24:14  
concede 35:23  
conceivable 17:3,  
18:21, 40:18,  
40:20, 41:14,  
42:7, 43:17,  
57:20, 70:14  
conceivably 69:17,  
70:4  
concept 25:25, 27:24  
conceptually 13:9  
concern 33:8, 58:23  
concerned 73:6  
concerning 58:24,  
60:3  
concerns 59:8, 60:6,  
60:7  
concludable 38:16  
conclude 21:2,  
33:21, 62:12  
concluded. 75:1  
concludes 65:19,  
70:25, 73:5, 74:1  
conclusion 42:5,  
53:22  
condition 20:13,  
35:7  
conditional 20:7  
conditionality 57:22  
conditions 20:13  
conduct 16:19, 21:9,  
26:2, 26:3, 26:8,  
30:24, 31:2,  
32:25, 39:7,  
39:20, 52:18,  
57:17, 58:18,  
59:9, 60:3, 66:24,  
68:21  
conducted 40:11,  
46:13, 58:25  
conducting 74:19  
conducts 26:15,  
26:16, 27:8  
confer 18:1, 65:7  
conference 6:14  
confers 69:4  
confident 44:13  
confirm 18:3  
confirmation 22:11,

22:13, 43:11,  
43:16  
confirmed 40:25,  
43:2, 44:4, 48:12,  
49:1  
confirming 54:14  
conformity 40:12  
confusion 27:22,  
51:13, 51:14,  
51:15, 60:16  
Congress 23:21,  
67:13  
congressionally  
23:20, 65:16  
connection 9:21,  
14:24, 60:4,  
60:13, 65:21,  
66:12, 72:12  
consideration 19:9,  
27:4, 29:6  
considerations 72:5  
considered 48:9,  
63:25  
Considering 26:18  
consistent 6:13,  
46:17, 68:22  
consisting 76:4  
Consortium 69:14  
constitute 18:20  
Constitution 64:13  
construed 16:5  
contained 35:6, 66:3  
contend 31:8, 64:8  
contended 31:2  
contested 72:11  
context 23:8, 37:4,  
37:6, 57:5  
contingency 57:22  
contingent 17:8,  
19:14, 20:2, 44:17  
continue 11:4,  
12:23, 13:12,  
24:19  
continues 12:24  
contours 21:17,  
26:11  
contract 16:17,  
31:20  
contracts 20:12  
contractual 32:14,

44:14  
 Contradictory 25:21  
 contrary 16:21  
 contribution 17:5,  
 19:12, 19:18,  
 20:8, 20:21,  
 20:24, 32:13,  
 32:14, 32:17,  
 44:11, 44:20,  
 57:23  
 controlling 16:5,  
 18:19  
 controls 50:25  
 controversy 49:10  
 convening 5:22  
 Convention 30:16  
 conversation 34:21  
 convince 50:23, 51:2  
 convincingly 59:10  
 cooperating 74:15  
 copies 74:10, 74:12  
 coping 6:4  
 core 66:2, 72:15  
 coronavirus 6:3  
 Corp. 66:18  
 Corporacion 64:20  
 Corporation 2:4,  
 2:19, 3:12, 3:13,  
 3:20  
 Corraliza 27:19  
 correct 35:4, 46:19,  
 50:11, 50:12,  
 68:20  
 corrections 64:3  
 cost 7:17  
 counsel 5:21, 14:23,  
 24:1, 29:12  
 counterarguments  
 70:12  
 countries 26:25,  
 27:6, 27:8, 29:2  
 Countrywide 66:18  
 County 69:13  
 couple 10:4, 13:3,  
 34:22, 42:15,  
 46:6, 52:21  
 course 6:25, 18:9,  
 18:22, 19:21,  
 21:7, 43:12,  
 43:18, 44:22

courtesy 74:10,  
 74:12  
 courthouses 74:14  
 COURTROOM 5:10,  
 24:15  
 Courts 21:5, 21:23,  
 25:7, 26:13,  
 26:19, 27:10,  
 28:10, 28:16,  
 30:9, 46:5, 51:9,  
 51:10, 51:14,  
 51:15, 64:11,  
 65:12, 67:11,  
 67:14, 69:5,  
 71:12, 72:24  
 cover 19:3  
 covers 13:20  
 create 7:7, 53:25  
 created 42:2, 46:11,  
 64:19, 67:13  
 creditor 18:17,  
 43:16, 70:24  
 Creditors 10:23,  
 17:17, 17:18,  
 17:24, 43:14,  
 48:16, 48:18,  
 48:21, 48:23,  
 56:20, 70:11,  
 70:16, 72:4, 72:6  
 criminal 34:16  
 criterion 26:2  
 criticizing 51:13  
 CSR 76:14  
 Ct. 67:10  
 cull 12:23  
 curious 43:21, 44:12  
 currently 74:14  
 custom 19:9  
 customs 26:12, 26:21  
  
 < D >  
 damage 6:4  
 damages 66:9, 66:10  
 Danvers 65:8  
 Darue 64:22  
 dashboard 6:12, 9:8,  
 9:9, 55:13, 55:17,  
 55:19  
 date 12:12, 19:19,

74:2, 74:6  
 dates 44:23  
 day 12:4  
 days 11:23, 13:24  
 de 25:10, 25:11,  
 25:16, 25:25,  
 26:5, 27:15,  
 27:16, 27:23,  
 28:2, 28:6, 28:8,  
 28:24, 29:1  
 dealing 19:5, 26:2  
 deals 16:23, 20:11,  
 57:6  
 debt 17:19, 37:20,  
 48:25  
 decade 59:3  
 decide 25:14, 29:2  
 decided 11:10  
 decision 35:15,  
 36:14, 36:15,  
 44:18, 64:16  
 decisions 9:21,  
 54:12  
 declaracion 25:11,  
 26:5, 27:15, 28:8,  
 29:1  
 declaration 16:11,  
 16:17, 21:16,  
 51:24  
 declaratory 70:23  
 decline 19:3  
 declines 62:4  
 deemed 44:24  
 defendant 31:9,  
 31:18, 31:21,  
 32:11, 57:17  
 Defendants 2:14,  
 2:29, 16:3, 17:11,  
 31:1, 31:8, 31:13,  
 31:23, 32:2,  
 32:16, 34:2,  
 34:12, 49:14,  
 50:15, 52:18,  
 63:21, 66:5,  
 66:24, 68:19,  
 68:22, 70:8,  
 70:12, 70:18  
 defenses 17:23,  
 22:2, 37:3, 37:13,  
 38:3, 38:8, 38:13,

38:17, 41:7,  
44:14, 51:20,  
56:14, 66:15,  
70:13, 70:17  
defining 24:3  
degree 72:6  
Dein 2:35, 5:13,  
22:6, 76:8  
del 64:20  
delay 24:16, 60:1  
demands 67:19  
demonstrated 57:21  
denied 73:21  
Denton 3:14, 15:20,  
15:25, 24:2, 24:6,  
24:12, 24:25,  
25:1, 25:3, 26:23,  
28:5, 28:21, 30:5  
Department 10:13,  
10:14, 11:12,  
11:13  
depth 72:10  
DEPUTY 5:10, 24:15  
derived 26:21  
Desarrollo 64:20  
described 30:5,  
32:5, 32:22, 67:22  
despite 22:7  
detail 8:11  
detailed 48:2  
details 74:6  
determine 54:22  
determined 43:7  
determining 69:12,  
71:14, 72:19  
detrimental 66:11  
developed 21:18  
developments 26:24  
devote 62:4  
dial 8:2  
dialogue 11:4  
dias 5:20  
Diaz 25:23  
dictates 21:5  
different 26:16,  
27:8, 28:6, 38:21,  
39:16, 43:5, 53:22  
differently 54:16  
difficult 7:6, 31:7,  
51:8, 51:10

difficulty 7:11,  
71:19  
dig 12:12  
diligence 16:21,  
19:22, 23:7, 31:1,  
40:11, 42:2,  
46:14, 47:5,  
54:13, 57:8, 57:9,  
58:25, 66:7,  
66:25, 68:23  
direct 8:1, 46:10  
directed 53:9  
directly 6:2, 57:14,  
64:17  
disallowed 20:4  
disconnect 8:2  
disconnected 59:25  
discovery 53:9  
discretion 26:11,  
45:6, 71:7  
discretionary 45:9,  
45:15, 45:17,  
47:15, 47:20,  
47:23, 49:7,  
52:20, 55:1, 55:2  
discuss 9:22  
discussing 10:23  
Discussion 24:10,  
24:23  
displayed 44:17  
dispute 41:23, 46:1,  
46:16, 54:4  
disputed 16:4,  
33:11, 65:14  
disputes 25:8, 72:2  
disregard 56:18  
disruptive 54:21  
distinct 30:22  
distinction 30:11,  
31:19, 31:23  
distinguish 33:16  
distinguishable  
70:21  
distinguished 25:23  
Distressed 66:17  
distribution 43:12,  
43:14, 62:1  
distributions 62:6  
District 1:1, 1:3,  
2:33, 2:34, 2:36,

5:11, 30:17,  
36:17, 64:11,  
69:4, 76:1, 76:2,  
76:7  
disturbing 65:15  
diversion 41:24,  
42:4  
diversions 42:1  
diverted 41:19,  
41:22  
Docket 1:6, 1:23,  
2:3, 2:18, 7:16,  
8:9, 15:7, 15:9,  
63:9, 63:12, 74:9,  
74:11  
doctrina 25:10,  
25:11, 25:16,  
25:25, 27:15,  
27:23, 28:2, 28:6,  
28:8, 28:24  
doctrine 25:24,  
47:11, 51:13,  
51:22, 51:24  
doctrines 16:14,  
22:18, 23:11,  
24:4, 25:9, 26:14,  
26:18, 26:21,  
26:25, 27:3, 27:7,  
28:11, 28:14,  
28:22, 29:4, 30:8,  
46:25, 57:11,  
67:3, 67:6  
documents 35:10,  
39:11, 47:1, 52:2,  
52:15, 53:11,  
54:14, 54:17  
doing 13:21  
DOJ 13:13  
dollar 17:14, 18:23  
dollars 37:22, 38:5,  
41:4, 41:9, 44:2,  
48:3, 48:19, 56:8  
dominate 23:21  
done 26:14  
Dow 65:9  
down 12:12, 34:3  
DPR 56:21  
dropped 9:6, 42:21  
Due 14:4, 16:21,  
19:22, 23:6, 31:1,

40:11, 42:2,  
46:13, 47:5,  
54:12, 57:8, 57:9,  
58:25, 60:16,  
66:7, 68:23  
during 6:19, 6:24,  
7:5  
duties 40:7, 46:11,  
54:18  
duty 67:13  
dynamics 18:12

< E >

E. 3:20  
earlier 53:6, 57:21,  
59:25, 68:14  
earliest 9:25  
earthquakes 6:5  
easier 22:11  
Eastern 17:21, 56:16  
echoed 34:25  
effect 18:16, 18:21,  
22:9, 23:16,  
47:25, 48:2, 49:3,  
62:6, 69:18, 71:16  
effective 17:6, 19:2  
effectively 68:20  
effects 17:3, 61:12  
efficient 72:15,  
72:25  
efforts 31:1  
either 40:4, 61:9,  
63:2, 69:24  
el 64:20  
Electric 25:18  
elements 52:19  
eliminate 41:15,  
42:6, 43:13  
eliminating 48:3  
elimination 44:2  
emanate 25:12  
Empire 65:3  
enables 25:14  
encourage 7:18  
end 8:3, 12:4, 13:5,  
25:22, 29:20,  
34:5, 45:16, 55:9,  
62:16  
enforce 67:12,

68:15, 68:17,  
68:19  
enforcement 22:10  
enforces 26:7  
enforcing 16:18  
Eng'g 64:22  
engaged 21:22, 37:12  
enormous 38:18  
enough 42:8  
ensure 6:8  
entail 72:13  
enter 73:3  
entertain 65:15  
entirely 50:18,  
58:15  
entitled 38:6  
entrenched 28:22  
Entry 7:16, 8:9,  
15:8, 15:9, 63:9,  
63:12, 63:18,  
74:9, 74:11  
enumerations 51:21  
equitable 16:10,  
17:23, 20:21,  
22:2, 22:7, 22:18,  
23:11, 24:4,  
27:21, 28:17,  
30:7, 37:3, 37:13,  
38:8, 41:7, 44:13,  
56:14, 57:10,  
71:4, 71:10, 71:14  
equitably 71:8  
equity 25:14  
especially 31:4  
Esq 3:14, 3:25  
essential 47:14  
essentially 25:24,  
46:8  
establish 35:16,  
42:3, 49:1, 49:7,  
51:18  
establishing 16:4  
estate 15:24, 17:4,  
17:5, 17:9, 18:13,  
18:25, 22:4, 22:9,  
38:19, 41:5, 41:6,  
41:8, 41:11, 44:1,  
48:1, 49:4, 69:18,  
71:17  
estate. 70:1

estimate 12:14  
estoppel 27:25  
et 1:16, 2:5, 2:12,  
2:27, 3:6, 5:18  
evaluative 9:21,  
12:8  
event 31:17  
events 43:8  
everybody 40:17,  
54:2  
everyone 6:13, 8:1,  
8:21, 24:18, 74:8,  
74:22  
everything 29:21,  
63:5  
exact 17:12, 39:5  
Exactly 20:15, 40:8,  
56:7  
examine 26:24  
example 7:22, 20:10,  
27:22, 41:9,  
41:10, 41:13,  
41:15, 51:24,  
57:11  
exceptional 16:16  
exceptions 17:23,  
20:16  
Exchange 10:1, 67:13  
exclusive 67:11,  
69:5, 71:3  
excuse 10:16, 11:15,  
14:4, 19:24  
execution 22:10,  
56:6  
exercise 21:6, 45:6,  
45:23, 61:18,  
62:10, 64:12,  
71:5, 71:7  
exercising 66:16  
EXHIBITS 4:9  
exist 32:8, 43:10,  
54:19, 72:23  
existence 31:9,  
31:24, 71:21  
exists 65:11, 69:17  
expect 8:3, 9:25,  
10:2, 12:8, 13:3,  
13:8, 13:21, 36:6,  
38:10, 74:4  
expectations 16:16,

23:8  
expected 22:13,  
66:25  
experience 26:18  
experiences 27:7  
experiment 37:16  
expertise 72:24  
expire 51:21  
explain 17:6  
explained 25:25,  
27:19, 68:14  
expressly 25:13,  
26:6, 27:19, 28:25  
extensive 27:5  
extent 31:16, 71:18,  
72:21  
  
< F >  
F. 66:18  
F.2d 65:8, 69:19  
F.3d 64:21, 65:2,  
67:22  
face 40:6  
fact 16:5, 19:8,  
22:19, 22:23,  
27:21, 30:20,  
33:11, 39:19,  
48:8, 52:7, 57:19,  
58:15, 68:24  
fact-bound 68:7  
factor 47:25, 50:21,  
52:7, 52:11, 52:12  
Factors 47:22,  
71:13, 71:24,  
72:1, 72:17, 73:1  
facts 27:3, 28:11,  
35:14, 36:20,  
60:17, 60:23,  
61:6, 61:16, 68:8  
factual 52:21  
failed 16:24, 57:13  
failures 19:22  
fair 13:3, 13:6,  
20:1, 61:14  
faith 16:16, 20:17,  
25:20, 28:14,  
28:24  
faithful 26:2  
fall 21:25

false 16:21, 35:9,  
39:15, 46:24,  
47:2, 47:4, 53:10  
far 73:12  
favor 16:6, 47:24  
favored 38:22  
favors 21:21, 56:11,  
56:25  
federal-question  
65:7  
federal-state 23:20  
Federico 3:14,  
15:20, 15:25,  
24:2, 25:3  
feeling 34:13  
Fenner 2:26, 67:9  
few 10:18, 12:1,  
13:2, 28:18, 40:3  
fifteen 12:20  
filed 7:14, 7:16,  
12:13, 17:11,  
17:25, 19:17,  
19:20, 19:23,  
28:11, 33:7,  
33:18, 36:4,  
43:11, 44:22,  
44:23, 46:17,  
60:18, 61:1,  
63:16, 73:24  
filings 36:5  
Fin 66:17, 66:18  
final 7:25  
Finally 20:19,  
23:17, 23:19,  
28:18, 28:21, 54:1  
Finance 2:3, 3:11  
Financial 1:9, 1:26,  
2:11, 3:23, 5:16,  
35:7, 37:1, 37:19,  
38:18, 41:8, 44:1,  
60:4, 60:13  
Financing 30:15  
find 8:12, 36:11,  
53:23, 53:24  
finish 23:2, 23:3  
firms 36:6  
Fiscal 3:22  
fit 44:25  
five 72:1  
Flint 57:1

focus 58:14  
focused 13:11, 58:17  
follow 54:15  
following 18:22,  
64:5, 71:13  
follows 19:13, 50:13  
FOMB 19:23  
footnote 45:7  
foreseeable 13:17  
forget 28:7  
formal 61:2, 73:5  
former 24:1, 27:17  
forth 7:14  
forum 52:14, 65:15  
forward 11:15  
found 11:4, 37:11,  
60:14  
four 55:7  
fourth 72:16  
frame 11:17, 11:18,  
13:25  
frankly 43:18,  
56:18, 59:7  
free 26:13, 48:19  
freedom 69:24  
frequency 10:4  
front 55:4  
funds 41:19, 41:22,  
42:5, 58:19  
Fuster 27:18  
future 73:24  
  
< G >  
G. 3:16, 3:29  
Gail 2:35, 76:8  
gate 57:10  
gave 11:3  
General 8:15, 9:22,  
14:18, 25:17,  
25:19  
generally 21:24  
gets 13:13  
getting 12:4  
give 22:8, 41:12,  
49:10  
Given 18:10, 32:19,  
36:21, 40:13,  
43:22, 49:12, 54:5  
glad 58:3

goal 14:10  
 God 5:14  
 going-forward 10:17  
 Good-bye 74:25  
 govern 68:2  
 governing 55:2  
 government 34:15,  
   60:4, 68:25  
 Government. 68:13  
 Grable 54:2, 64:21,  
   65:17, 65:19  
 Grace 20:2  
 grant 71:7  
 granted 30:4, 64:4  
 granting 73:3  
 great 27:8, 27:22  
 Greenwich 66:17  
 gross 20:17  
 ground. 71:10  
 grounded 25:19  
 grounds 67:3  
 grouping 13:8  
 Guarantee 2:4, 3:11,  
   52:3  
 guarantor 37:7  
 guess 73:13  
 guesstimate 12:15,  
   12:19  
 Gunn 54:2, 64:15  
  
 < H >  
 Hale 34:12  
 hand 21:12, 27:14,  
   55:17, 55:19,  
   55:21, 59:16  
 handling 69:25  
 hands 73:10, 73:12  
 happen 43:20  
 happenstance 50:5  
 hard 43:19  
 headquartered 50:15  
 health 8:21  
 Healthchoice 65:3  
 hear 7:25, 29:23,  
   34:8, 45:4, 56:1,  
   58:9, 59:23,  
   67:14, 73:19  
 heard 7:1, 7:4,  
   50:4, 53:6, 61:14

Hearing 2:32, 5:19,  
   5:23, 6:9, 6:15,  
   7:6, 7:11, 8:8,  
   74:1, 74:2, 74:3,  
   74:4, 74:7, 74:19  
 heavily 31:24,  
   47:19, 48:7  
 held 16:13, 17:21,  
   21:20, 56:12, 57:1  
 help 72:8  
 helpful 14:12  
 helping 73:21  
 Hernandez 3:14,  
   15:20, 15:25,  
   24:2, 24:6, 24:12,  
   24:25, 25:1, 25:3,  
   26:23, 28:5,  
   28:21, 30:5  
 hesitant 21:5  
 Higgins 69:19  
 highly 52:7  
 hinder 72:8  
 hit 6:5  
 holder 18:14  
 holding 68:8  
 holds 19:14, 69:16  
 honest 26:2  
 Honorable 2:33,  
   2:35, 5:12, 5:13,  
   5:14, 76:6, 76:8  
 hopeful 11:24  
 hopelessly 44:17  
 Hospital 43:9  
 HTA 10:20, 60:7,  
   61:4  
 huge 41:8  
 human 26:16  
 hundred 13:4  
 hundreds 37:21,  
   38:5, 41:8, 44:2  
 hypothetical 37:8  
  
 < I >  
 Id 68:14, 70:1  
 idea 56:5  
 identical 41:21  
 identified 46:23,  
   47:3, 54:6, 54:16  
 identify 6:20,

  20:23, 40:8, 46:13  
 identifying 32:24  
 identity 70:15  
 imagine 37:19  
 immediately 7:12  
 impact 17:8, 18:25,  
   20:25, 22:4, 32:5,  
   35:23, 37:1,  
   37:19, 38:18,  
   40:19, 40:23,  
   41:1, 41:8, 41:11,  
   57:20, 57:24,  
   58:14, 62:1, 62:8,  
   62:9  
 impact[] 69:25  
 impacts 44:1  
 impediments 32:6  
 implicate 33:9  
 implicated 20:17,  
   31:3, 35:1  
 implicates 59:9  
 implication 33:5  
 implied 20:16  
 import 22:23  
 importance 28:22,  
   28:24, 66:1  
 important 20:13,  
   21:12, 25:6,  
   30:10, 30:21,  
   31:23, 35:23,  
   36:3, 65:1, 67:20,  
   67:21, 68:3  
 Importantly 16:6  
 impose 20:12  
 imposed 23:10,  
   23:11, 67:5, 67:6  
 improper 32:24,  
   39:3, 48:6  
 inaccurate 35:21,  
   58:21  
 inadequate 20:6  
 Inc. 2:12, 35:14,  
   64:20, 64:22,  
   65:3, 65:9, 67:9,  
   69:19  
 include 10:19  
 included 10:21,  
   10:22  
 includes 26:1  
 including 6:16,



30:5, 32:22,  
56:11, 60:12,  
66:21, 66:22  
inconsistent 53:18,  
53:25, 68:21  
incorporate 29:3  
Incorporated 2:27  
incorrect 56:15  
increase 17:4  
increasing 10:2  
indemnification  
17:5, 19:12,  
19:18, 20:7,  
20:12, 20:24,  
22:8, 32:3, 32:8,  
44:11, 44:16,  
57:23  
independent 20:5  
indicated 13:10,  
33:8  
indication 72:6  
indirectly 6:3  
indiscernible 42:12  
induced 49:17, 66:5  
influence 26:8  
inform 12:15  
information 12:24,  
13:14, 39:14,  
66:4, 66:12  
Informative 33:7,  
33:14, 33:18,  
60:18, 60:20  
Infrastructure 30:15  
inherent 60:17  
initiated 60:12  
inquired 60:25  
inquiry 67:19  
Instance 42:7,  
61:19, 63:20  
instant 72:13  
instead 19:4, 38:10,  
48:20, 56:22  
institutions 25:10,  
26:20  
instrumentalities  
31:5, 31:11, 63:24  
instrumentality  
39:18  
insufficient 18:1  
Insurance 3:13,

66:3, 66:6, 66:13  
insure 16:23  
insurer 37:7  
insurers 15:22,  
16:8, 16:20, 17:3,  
17:7, 17:11,  
17:15, 17:20,  
17:25, 18:11,  
22:1, 22:17, 36:3,  
37:23, 40:21,  
41:2, 46:4, 57:2  
insurmountable 32:6  
intelligent 38:1  
intending 55:15  
intensive 68:24  
intent 16:18, 21:9,  
26:8  
intention 51:25,  
52:2  
interactions 26:17  
interest 5:21, 6:24,  
16:1, 17:19,  
19:10, 24:3, 25:8,  
26:12, 30:8,  
48:15, 52:6  
interested 7:17,  
9:24  
interests 23:21,  
50:13  
interference 42:14  
internal 69:20  
International 25:17  
interpret 26:19,  
26:20, 27:11,  
27:21, 27:23  
interpretation  
21:10, 21:13,  
27:14, 68:1  
interpretations  
66:22  
interpreting 27:2  
interrupt 7:5, 7:6,  
7:9, 18:7  
intersecting 67:16  
introduced 19:8  
invite 8:14  
invoke 40:6, 40:7  
invoked 45:24,  
47:11, 56:23,  
64:18

involuntarily 71:23  
involve 25:9, 38:24  
involved 22:14,  
42:12, 56:8, 63:22  
involvement 31:14  
involves 30:7,  
30:14, 65:1  
involving 52:14  
island 6:1, 6:4,  
6:6, 11:8, 74:23  
issuance 31:22,  
61:10  
issuances 23:23,  
30:12, 30:15,  
58:24, 60:3, 60:5,  
60:14, 63:22,  
66:6, 68:24  
issued 6:15, 19:21,  
30:13, 30:23,  
31:5, 32:20, 39:1,  
39:17, 41:16,  
60:6, 60:8  
issuers 30:20,  
36:21, 58:15,  
58:16  
issues 6:24, 10:24,  
15:22, 18:13,  
19:8, 21:6, 21:7,  
21:8, 21:13,  
21:18, 21:23,  
21:24, 33:11,  
35:25, 40:4,  
47:16, 47:17,  
53:14, 54:4,  
62:17, 65:21,  
65:24, 67:7,  
67:15, 67:19,  
71:18, 72:17  
issues. 65:2  
item 8:5  
itself 16:6, 35:16,  
35:22, 36:19,  
39:20, 44:5  
itself. 67:17  
  
< J >  
J. 3:6, 3:24  
Jaime 27:18  
JAMS 11:2



Jaramillo 28:2	27:15, 27:23,	liable 37:11
John 3:24, 16:2,	28:2, 28:5, 28:7,	lied 49:19
29:22, 58:8	28:8, 28:24, 28:25	life 25:21
Jointly 1:11, 1:28	lack 22:4, 68:16	light 66:25, 74:13
Jonathan 3:20	lacks 64:9, 68:24,	likelihood 43:1
Juan 5:1	68:25	likely 11:5, 20:3,
Judge 2:33, 2:34,	language 27:12,	40:23, 40:24,
2:35, 2:36, 5:5,	27:13, 69:8	66:20, 68:3, 68:8,
5:7, 22:6, 24:20,	large 51:8, 68:2	70:13
30:5, 34:6, 55:10,	largely 53:9	likewise 61:19
55:14, 59:21,	Last 12:18, 22:15	limited 6:16, 68:8,
59:22, 76:7, 76:8	late 19:19	72:14, 74:13
judge-made 29:3	later 19:3, 33:14,	limits 20:13
judges 26:10	59:3	line 6:9, 10:8,
judgment 22:10,	latter 65:5	15:19
48:11, 70:23	Laura 2:33, 3:8,	lines 73:10
judgments 53:18,	5:5, 5:12, 76:7	Lisa 5:7
53:25	law-imposed 66:9	list 71:13
Judicial 6:14, 29:7,	law. 64:19	listed 6:22, 73:24
65:16	lawful 53:21, 53:23	listened 63:5
Judith 2:35, 5:13,	lawfully 41:19,	Litig 35:14
76:8	41:22	litigants 36:6
July 74:1	lawfulness 42:4	litigate 38:9, 38:10
juridical 25:20	laws 40:6, 40:8,	litigated 22:5,
jurisdiction. 65:7	40:12, 45:14,	36:9, 65:21
jurisdictional 69:8	46:11, 46:12,	litigation 13:11,
jurisprudence 27:5,	46:14, 47:6, 47:7,	18:13, 19:15,
27:9, 27:13	47:19, 54:19,	20:4, 33:12, 36:7,
jury 52:10, 71:22	57:3, 57:7, 64:13	50:10, 60:3, 60:5,
Justice 10:13,	lawsuit 37:9	60:7, 60:10,
10:14, 11:12,	lawyer 25:23	60:12, 60:17,
11:13, 24:1, 27:17	lawyers 38:2	60:18, 60:21,
justifies 62:10	leading 16:23	60:22, 60:23,
	least 36:3, 41:9,	60:24, 61:1, 61:3,
	42:25, 43:17	61:4, 61:5, 61:6,
< K >	led 42:2	61:9, 61:13,
keep 7:18, 16:7,	left 53:2	61:22, 61:25,
74:22	legal 29:2, 53:14,	62:5, 62:8
keepers 57:10	61:19	litigation-based
keeping 7:19, 47:24	legality 21:9	13:16
kind 37:13, 39:24,	legitimate 16:15,	litigious 48:4
42:21, 47:22,	23:8	littered 35:5
48:24	Less 7:25, 53:3	little 11:10, 12:12,
knowledgeable 27:4	liabilities 17:9,	13:15, 18:13,
knows 30:17	18:25, 69:24,	34:13, 35:21,
	70:12, 70:17,	37:15, 55:17
	70:25, 72:5	live 22:18
< L >	liability 20:14,	living 43:19
la 25:10, 25:11,	20:21, 22:8,	local 19:8, 19:9,
25:16, 26:5,	47:10, 67:12	21:19, 22:20

located 49:14, 49:24  
logistical 74:6  
long 19:24, 34:17  
long-running 46:5  
look 35:2, 37:21,  
49:19, 66:20,  
71:13  
looking 54:13, 73:22  
los 25:10, 25:16,  
26:1, 27:15,  
27:23, 28:2, 28:6,  
28:24  
lose 44:3, 53:23  
loss 50:4  
losses 16:24, 42:3  
lot 52:14  
low 40:19  
lower 51:13  
loyalty 26:1  
Ltd 65:8  
Luis 3:25, 14:19  
Lynch 2:25, 23:13,  
57:16, 67:9

< M >

Maddie 24:17  
Magistrate 2:35,  
76:8  
magnitude 18:10,  
56:7  
main 17:2  
Maine 20:10  
mainland 6:2  
mainland-based 11:7  
Management 1:10,  
1:27, 5:16, 74:9  
managing 53:8  
mandate 60:9, 60:11  
manner 68:22  
Manning 23:13,  
57:16, 67:10  
Marini 3:25, 14:17,  
14:19, 14:20,  
14:22  
market 23:9, 54:21,  
57:10  
Martin 3:6, 8:17  
master 24:16  
material 35:6, 61:22

materially 38:21,  
72:7  
materials 23:7  
matter 7:13, 16:3,  
18:12, 20:8,  
23:10, 25:6, 36:8,  
45:10, 53:8,  
57:17, 64:7, 64:8,  
65:11  
matters 6:22, 23:22,  
72:11, 72:15,  
73:23  
Mayaguez 23:16,  
57:14, 64:20,  
65:2, 67:21  
Mays 57:1  
MBIA 3:12, 15:12,  
15:18, 33:16  
Mcveigh 65:4  
mean 41:3, 50:17  
means 30:21, 31:13,  
31:19, 47:6, 49:8,  
64:14  
measure 40:19  
mediation 9:21, 12:8  
meet 67:23  
members 5:21, 6:17  
Memorandum 63:9,  
63:12  
mentioned 19:13,  
41:18, 45:8  
mere 65:5, 67:7,  
70:10  
Merely 72:19  
Merrell 65:9  
Merrill 2:25, 23:12,  
57:15, 67:9  
message 59:15  
met 45:21, 45:25  
Metal 64:21  
Mfg 64:22  
Microsoft 49:25,  
50:1  
mid 13:18, 19:22  
million 48:19  
millions 37:22,  
38:5, 41:8, 44:2  
mind 27:2, 27:17  
mindful 74:15  
mine 29:17

minimum 10:11  
Minton 64:15  
minute 36:1  
minutes 7:20, 7:24,  
15:10, 15:13,  
34:3, 40:3, 52:24,  
53:3, 55:7, 55:24,  
58:7  
misconduct 17:1,  
20:22, 35:1, 35:9,  
35:12, 35:16,  
37:12, 60:13  
misdirection 21:22  
misleading 66:4  
misrepresentation  
40:9, 40:10,  
46:12, 47:13,  
49:16, 49:24,  
51:18, 54:6  
misrepresentations  
35:7, 66:4  
misrepresented 49:25  
missed 73:7  
mistake 46:21  
mistaken 12:21,  
41:25  
mix 72:3  
moment 42:10, 45:8,  
51:6, 60:1  
Monday 7:15  
money 48:23  
monitor 54:16  
month 13:21  
months 34:15  
Montreal 20:10  
morning 5:5, 5:8,  
5:20, 8:3, 8:16,  
8:19, 8:20, 9:12,  
9:14, 14:19,  
15:15, 15:16,  
24:25, 25:1,  
29:22, 30:1, 30:2,  
34:10, 34:13, 63:6  
Mortg 66:18  
Motion 15:7, 15:9,  
30:3, 33:7, 33:15,  
33:18, 34:2,  
60:18, 60:19,  
60:20, 61:2, 63:8,  
63:11, 63:14

Motions 15:7, 60:2,  
63:7, 63:14,  
63:15, 63:16,  
63:18, 63:20,  
64:2, 64:4, 64:8,  
73:4  
Movants 71:3  
move 11:14  
moved 46:7  
moving 10:16  
MS 3:8, 5:7, 5:8,  
5:9, 9:7, 9:9,  
10:8, 24:8, 24:20,  
24:21, 24:22,  
29:19, 29:21,  
34:4, 34:6, 55:6,  
55:8, 55:10,  
55:12, 55:13,  
55:14, 55:18,  
55:20, 59:17,  
59:18, 59:21,  
62:21, 73:9,  
73:12, 73:17  
multiple 26:15,  
40:20  
municipal 16:9,  
23:23, 54:21  
Municipality 23:15,  
57:14, 64:19,  
67:21  
mute 6:9, 6:11,  
73:13  
muting 29:20, 73:15

< N >

name 6:21, 7:2,  
14:25, 40:6  
Nashoba 65:7  
nature 16:1  
near 13:17  
nearly 68:4  
necessarily 65:13,  
65:22, 67:2, 69:21  
necessary 12:1,  
54:11  
need 8:1, 8:3, 40:4,  
47:17, 69:21  
needing 11:22  
negatively) 69:25

neglect 19:25  
negligence 20:17  
Neiman 3:16, 34:2,  
34:8, 34:11,  
34:19, 42:14,  
42:17, 42:20,  
42:24, 46:20,  
47:9, 47:12,  
50:12, 52:10,  
53:1, 53:5, 54:9,  
55:5, 56:13,  
56:21, 57:13,  
58:17, 59:10  
neither 30:18, 65:22  
net 12:7, 70:11,  
70:18  
New 26:14, 50:25,  
67:25, 70:17,  
74:18  
next 13:2, 14:2,  
50:21, 51:5, 52:7,  
52:12, 74:2  
nexus 18:1  
NG 5:7, 5:8, 9:7,  
9:9, 24:8, 24:20,  
24:21, 24:22,  
29:19, 29:21,  
34:4, 34:6, 55:8,  
55:10, 55:13,  
55:14, 55:18,  
55:20, 59:18,  
59:21, 62:21,  
73:9, 73:12, 73:17  
niceties 52:4  
No. 1:6, 1:23, 2:3,  
2:18, 7:16, 15:8,  
15:9, 29:15, 63:9,  
63:10, 63:12,  
63:13, 65:8,  
73:17, 74:9, 74:11  
Nobody 25:18, 55:21  
non-contractual  
20:20  
non-core 15:23,  
17:8, 19:5  
non-debtor 31:11  
non-debtors 72:2  
non-exclusive 71:13  
non-puerto 49:13  
non-substantive 64:3

nondebtors 15:23  
None 4:5, 4:11,  
46:25, 50:5, 51:9  
nonetheless 31:2,  
31:3, 58:18  
noon 8:3  
Nor 65:25, 67:18  
normally 44:13  
norms 16:22  
Nos. 8:9  
notably 22:8  
note 21:22, 33:1,  
37:1, 52:22,  
56:10, 57:13  
noted 36:21, 67:10,  
70:12  
Nothing 18:14,  
59:12, 62:22, 63:1  
notice 10:3, 12:9,  
13:2, 13:21, 74:13  
noticed 13:4  
notices 10:4, 13:25  
novel 44:24  
number 5:18, 10:2,  
10:3, 11:6, 12:7,  
12:9, 12:24, 13:6,  
43:5, 51:8, 68:2,  
73:23  
numbers 12:19  
numerous 5:24  
< O >  
object 20:3  
obligation 33:9,  
45:23  
obligations 17:17,  
23:10, 25:12,  
26:3, 26:7, 28:9,  
47:5, 54:23, 59:9,  
66:7, 66:9, 67:5,  
68:23  
obtain 48:11  
obvious 38:13, 51:20  
obviously 11:25,  
12:15, 35:23, 45:9  
occasions 26:15  
occur 74:4  
occurred 59:2  
occurs 29:1

October 14:3, 14:8  
Oeste 64:20  
offer 9:25, 23:7,  
53:11  
offered 48:8  
offering 35:6, 35:9,  
39:11, 52:2,  
54:13, 54:15,  
54:17  
offers 11:16, 11:25  
Official 30:22,  
31:6, 31:11,  
32:20, 39:13,  
76:15  
officials 60:4  
offs 72:14  
often 25:24, 29:1  
Okay 9:12, 9:18,  
12:17, 14:7,  
24:11, 29:23,  
34:9, 42:24, 53:7,  
56:4, 73:12, 73:15  
old 26:14, 34:13  
omission 20:15  
omissions 66:4  
omitted 68:14,  
69:15, 69:20  
Omni 12:19  
Omnibus 2:32, 5:19,  
5:23, 74:2, 74:3  
Omnis 73:24  
on-island 11:9  
once 5:22, 68:5  
One 7:3, 7:21, 11:8,  
20:13, 25:20,  
35:24, 38:10,  
39:14, 40:8, 41:1,  
41:9, 44:15,  
47:22, 53:3, 59:7,  
69:23, 70:24, 72:1  
ones 10:5, 50:22  
ongoing 74:19  
operate 19:1  
operated 68:22  
operation 6:8, 21:9,  
70:9  
operative 74:9  
Opinion 27:20  
opportunity 6:23,  
29:9, 73:22

opposed 43:22, 63:20  
opposing 31:2, 34:2  
options 69:24, 70:17  
oral 15:10, 63:6,  
64:2  
Order 8:7, 11:17,  
13:23, 46:21,  
46:22, 47:18,  
63:19, 65:24,  
73:3, 74:5, 74:9  
orderly 6:8  
Orders 6:14, 74:16  
ordinary 38:7, 45:23  
original 27:13, 69:5  
originate 21:16,  
28:11  
Ortiz 26:5  
others 12:18, 16:19,  
26:9, 60:15  
otherwise 59:11,  
72:8  
outcome 61:22, 62:5,  
62:7, 67:25,  
69:17, 69:23,  
70:3, 72:3  
outcomes 72:7  
outset 46:7  
outside 49:14,  
50:15, 50:17,  
50:18  
overall 9:23, 54:24,  
70:24  
overlap 23:11, 67:6,  
67:7  
overlapping 67:16  
overriding 25:8,  
30:8  
Oversight 1:9, 1:26,  
5:16, 7:15, 8:6,  
8:11, 8:13, 8:14,  
8:18, 11:11,  
14:15, 33:7,  
33:10, 33:12,  
33:13, 55:7, 59:7,  
61:12, 61:17,  
61:21, 62:4, 73:8  
overwhelming 24:3  
own 7:19, 19:11,  
20:21, 25:19,  
26:4, 30:9

< P >  
P'ship 65:8  
Pacor 18:21, 19:13,  
57:19, 69:11,  
69:19  
PAGE 4:3  
pages 76:4  
paid 37:9, 39:4,  
39:5, 41:20,  
43:16, 61:23  
pandemic 6:3  
Panel 36:16  
paper 74:10, 74:12  
papers 42:11, 42:25  
Para 64:20  
paragraphs 57:11  
parallel 23:21  
part 56:18  
participant 7:12  
participants 5:24  
particular 43:14  
particularly 9:24,  
23:22, 43:21,  
74:23  
PARTIES 3:3, 5:21,  
6:9, 6:17, 6:23,  
26:15, 31:16,  
35:22, 35:25,  
36:19, 44:6, 46:1,  
49:12, 49:14,  
60:25, 61:11,  
63:25, 66:20,  
67:20, 68:15,  
70:2, 74:10  
partner 8:23  
party 71:23  
passed 19:19  
patience 24:18, 25:2  
pattern 56:18  
pause 48:13  
pay 37:20, 37:21,  
37:23, 37:24,  
48:18, 48:20  
payable 13:12, 13:16  
payments 62:9  
PBA 12:13  
pending 52:15, 72:11  
people 6:3, 12:1,

73:9, 73:13  
per 10:2, 10:3,  
13:2, 13:21  
perform 23:6  
performed 22:24  
performed. 26:4  
perhaps 31:22  
period 10:16, 11:24,  
36:17, 61:11  
permits 71:9  
permitted 6:16, 42:2  
person 6:16, 7:3,  
73:19  
perspective 12:2,  
61:21  
persuasive 33:19,  
66:22  
Peter 3:16, 34:11  
Pharm 65:9  
phase 10:1, 13:12  
Philippe 3:13, 15:17  
phone 6:12, 9:11,  
24:13  
phones 6:9  
PHV 3:6, 3:7, 3:8,  
3:13, 3:16, 3:20,  
3:24, 3:29  
physical 51:5, 74:13  
Picasso 25:23  
pick 35:19  
PICKHARDT 3:20,  
16:2, 29:18,  
29:22, 29:23,  
30:1, 30:2, 33:5,  
33:23, 33:25,  
34:25, 35:11,  
58:6, 58:8, 58:11,  
62:18, 62:25, 63:1  
Pierce 2:25, 67:9  
pivoted 32:16  
Place 22:6, 47:11  
placed 11:20  
plainly 44:9  
Plaintiff 2:21,  
49:13, 63:11,  
64:25  
Plaintiffs 2:7,  
15:18, 15:21,  
37:2, 38:16,  
44:12, 45:19,

45:21, 45:25,  
50:14, 54:12,  
63:8, 63:16,  
64:18, 66:3, 66:5,  
66:8, 66:11, 67:1,  
68:16, 68:18,  
70:5, 70:7, 70:8,  
71:7  
Plan 22:11, 40:25,  
43:2, 43:11,  
43:23, 44:4,  
48:11, 49:1  
play 51:18  
played 18:11  
played. 7:23, 21:14,  
22:25, 26:22,  
28:4, 33:4, 52:9,  
54:7  
players 36:3  
playing 18:11  
plead 65:18  
pleading 64:18  
pleadings 74:11  
pleads 65:1  
Please 5:9, 6:11,  
6:20, 7:1, 7:5,  
7:12, 15:17, 25:2,  
28:20, 60:2,  
62:21, 74:12  
pleasure 14:13  
plenty 36:22  
point 9:25, 10:1,  
10:9, 14:16, 15:6,  
36:7, 43:4, 44:21,  
47:14, 50:22,  
51:5, 57:15, 65:3  
pointed 44:8  
pointing 58:16  
points 16:2, 39:23,  
52:21  
policies 6:14  
portion 73:5  
position 26:24,  
33:15, 37:10,  
43:21, 53:14,  
61:17, 61:19, 62:9  
positively 69:24  
possibility 37:18,  
53:25, 60:16  
possible 12:22,

32:15, 36:25,  
38:3, 53:17,  
61:25, 62:7, 73:9  
possibly 32:8, 45:24  
post 22:13, 43:15  
potential 44:1,  
61:12, 66:14,  
70:12, 70:18  
potentially 41:6,  
48:2, 48:3, 48:5,  
48:19  
Power 1:32, 45:4  
powered 28:16  
practical 18:12,  
36:2, 36:8, 53:7  
PRCCDA 30:17, 31:17,  
32:10, 60:6, 60:21  
precedent 20:19,  
22:22  
precluded 32:21,  
48:5  
predict 43:20  
predictably 67:15  
predominance 21:19  
predominantly 51:15  
predominate 21:7,  
21:8, 47:16,  
47:17, 71:18  
predominates 50:23,  
50:24, 51:3  
preferential 17:18  
prejudice 71:22  
PREPA 10:21, 60:7,  
61:4  
preparing 74:18  
presence 65:5,  
66:14, 74:13  
present 5:13, 5:24,  
54:11, 59:5,  
65:20, 67:18  
presentation 62:3  
presentations 6:25  
presented 33:2,  
54:20  
presents 68:4  
preserve 60:10  
presiding 5:13  
press 5:22, 6:17  
pressed 24:13  
presumptively 17:22

pretty 38:13, 49:11  
prevail 17:13,  
37:20, 38:17,  
41:11, 46:21,  
46:22, 53:20  
prevailing 47:18  
prevented 58:19  
prevented. 25:21  
previously 29:5  
PRIFA 30:16, 31:17,  
32:10, 60:6, 60:21  
primarily 58:17  
Prime 7:17  
principles 25:19,  
28:15, 50:8, 72:21  
prior 52:16, 54:13  
private 46:18,  
56:25, 57:3,  
68:16, 68:18  
privilege 29:10  
Probably 10:16,  
11:6, 11:23, 12:4,  
12:11, 13:12,  
13:15, 13:24,  
14:9, 48:15  
problems 57:5  
Procedures 8:7,  
19:7, 74:5  
proceed 50:2  
Proceeding 15:8,  
15:10, 30:6,  
30:19, 31:7,  
31:10, 33:6, 33:8,  
39:21, 39:22,  
40:5, 40:18,  
41:17, 41:21,  
43:11, 60:15,  
63:10, 63:13,  
63:19, 69:12,  
69:17, 69:21  
proceeding. 33:10  
process 9:23, 10:15,  
12:10, 13:4,  
13:14, 14:6,  
44:16, 72:9  
processes 11:23,  
12:5  
Prods 64:22  
produced 3:48  
professionals 60:4,

60:13  
profound 48:2  
progeny 19:14  
progressed 37:9  
projected 9:23  
projecting 62:5  
PROMESA 1:8, 1:25,  
5:18, 21:10, 69:4,  
71:9  
promise 26:8  
promissory 27:24  
proof 16:25, 19:17,  
41:18, 44:22  
Proofs 17:11, 17:20,  
20:1, 41:15  
proper 66:16  
property 69:22  
proprios 16:10,  
16:15, 21:15,  
25:11, 25:16,  
26:1, 27:15,  
27:23, 28:3, 28:6,  
28:25  
proposals 11:3,  
11:21  
propriety 59:2,  
59:4, 61:18  
prosecute 60:10  
prosecuted 70:18  
Proskauer 8:18, 9:15  
prospect 52:4, 53:18  
protects 16:15  
prove 47:6, 47:10,  
47:13  
provide 6:23, 10:12,  
11:16, 11:20,  
28:17, 32:12, 66:6  
provider 11:8  
providers 10:22,  
10:24, 10:25, 11:3  
provides 40:14  
providing 70:17,  
74:5  
provision 71:11  
provisionally 42:4  
provisions 43:15,  
74:16  
Public 2:3, 3:10,  
5:21, 6:17, 7:17,  
8:9, 19:9, 26:12

punished 6:18  
pure 68:5  
purportedly 67:5  
purposes 51:5  
Pursuant 60:11,  
66:10, 71:1  
put 14:21, 39:20  
  
< Q >  
quality 49:19, 49:25  
question 9:22,  
15:25, 18:24,  
22:15, 22:17,  
22:20, 22:23,  
35:20, 36:2,  
36:18, 37:17,  
37:25, 44:15,  
45:17, 47:21,  
52:17, 56:14,  
56:24, 57:1, 57:8,  
57:18, 64:9,  
64:18, 64:24,  
65:20, 67:20,  
68:21, 70:22  
questions 7:9, 8:13,  
8:24, 9:19, 10:5,  
13:21, 14:14,  
14:16, 14:23,  
16:4, 29:13,  
29:15, 33:21,  
33:24, 46:9, 58:2,  
59:13, 62:11,  
62:13  
quick 53:7  
quickly 11:15,  
38:20, 52:22,  
53:17  
quite 8:12, 34:23,  
36:5, 36:9, 41:14,  
52:5, 54:11, 54:20  
quote 25:22  
quoted 25:25  
quoting 26:1, 64:21,  
65:3, 65:9  
  
< R >  
raise 21:12, 56:22,  
67:15, 68:18,

70:13  
raise[s] 65:13  
raised 6:24, 22:17,  
65:22, 65:24,  
67:2, 73:10, 73:12  
raises 65:12  
raising 59:16  
ramp 12:3  
range 66:24  
Rapisardi 3:24,  
14:17  
Rather 13:16, 21:24,  
30:14, 65:10,  
66:10, 68:6, 70:11  
Re 1:6, 1:23, 5:16,  
18:2, 18:20,  
20:10, 21:20,  
43:9, 56:21,  
57:19, 69:13  
reach 53:22  
reaction 38:11  
reads 40:13  
ready 16:14  
real 19:4, 28:13  
realized 34:14  
really 38:1, 38:2,  
38:24, 39:19,  
46:15  
reason 20:5, 33:19,  
35:11, 39:4, 39:8,  
49:11  
reasonable 23:6,  
36:8, 54:4  
reasonably 66:25  
reasons 29:5, 30:4,  
30:21, 32:22,  
39:25, 40:20,  
43:5, 51:3, 51:6,  
59:7, 64:5, 73:4  
rebuttal 55:23,  
62:19  
received 59:15  
recent 6:5  
recently 28:23  
recognize 26:13,  
28:7  
recognized 18:21,  
26:6, 69:11  
recommended 22:7  
reconciliation 62:1,

62:3, 62:8  
record 6:21, 8:16,  
64:1, 73:4  
record. 24:10, 24:23  
recorded 3:48  
recording 6:15  
recoveries 72:6  
recovery 32:2, 70:6  
reduce 41:5, 43:13,  
48:17, 70:6  
reduced 12:24, 36:9  
reducing 48:4  
reduction 17:3  
reductions 43:15,  
70:19  
redundant 32:23  
refer 15:18, 63:10,  
63:13, 63:14,  
63:17  
reference 45:13,  
66:7, 72:18, 72:20  
references 46:10,  
46:11  
referred 23:14  
referring 25:10  
refers 36:13  
reflected 8:11,  
10:10, 18:19  
refrain 74:12  
regard 31:21, 32:9,  
50:17  
regarding 8:13,  
9:19, 31:1, 31:14,  
60:19, 61:1, 61:2,  
61:3, 61:12, 61:17  
region 6:6  
Regional 43:9  
regulation 22:22,  
23:22, 68:1  
regulations 23:15  
reiterated 28:23  
rejects 45:10  
relate 21:11  
related 19:15, 30:6,  
31:25, 35:17,  
35:20, 36:19,  
39:2, 40:1, 40:16,  
42:9, 43:3, 43:6,  
43:10, 43:25,  
44:1, 44:5, 44:9,

44:18, 45:3,  
45:20, 52:7,  
54:25, 61:18,  
69:3, 69:6, 69:13,  
69:16, 70:25  
relatedness 71:20  
relating 18:1, 20:8,  
21:1, 21:3, 60:21,  
61:4, 61:9  
relation 50:8  
relevant 18:24,  
31:16, 71:24  
reliance 66:11  
relief 28:17, 67:3  
rely 31:23  
remain 6:1, 56:10  
remaining 7:21  
remanded 21:4,  
22:12, 23:13,  
33:20, 46:7, 53:19  
remanding 63:19  
remarks 6:25, 8:15,  
8:22  
remind 6:13, 49:6,  
74:8  
reminded 28:5  
remote 17:8, 19:13,  
19:19, 52:5  
remoteness 71:20  
removal 16:4, 43:7,  
52:14, 52:16  
removed 71:23  
repeat 39:13, 60:19  
repeatedly 23:14,  
36:13  
report 10:10, 13:11,  
14:15, 14:21,  
14:25, 19:22  
Reporter 76:15  
reports 8:5, 8:7,  
8:10, 8:12, 73:8  
repose 66:15  
represent 34:12,  
38:2  
representation  
40:11, 46:13,  
46:23, 47:4, 50:3  
representations  
50:16, 67:1  
representative 1:13,



1:30, 5:17  
representatives 8:15  
represented 34:15  
request 29:6, 67:3,  
71:7, 74:15  
requested 8:6  
requesting 28:17  
requests 63:18, 71:4  
require 6:25, 16:25,  
19:9, 21:10,  
22:18, 47:2,  
72:17, 72:20,  
74:10  
required 11:17,  
19:16, 42:8, 65:23  
requirement 67:23  
requirements 66:21,  
66:23  
requires 19:24,  
20:25, 51:25,  
54:13  
requiring 20:4  
reserved 58:6  
reserves 64:3  
resolution 68:12,  
72:15, 72:25  
resolve 65:24  
resolved 22:13,  
40:24, 43:3, 44:4,  
53:15  
resources 62:4,  
72:14  
respect 10:1, 10:14,  
11:14, 11:19,  
33:2, 33:14,  
33:17, 33:18,  
63:6, 65:11,  
68:23, 72:16  
respectfully 29:6  
respective 12:6  
respectively 63:18  
respond 29:14  
response 35:21,  
56:22  
response. 9:3  
responses 11:20  
responsibilities.  
65:17  
responsible 16:24  
restitution 44:6

restructuring 21:11,  
72:9  
result 17:23, 32:3  
resulting 48:5,  
70:10  
retain 19:4  
retention 72:12  
retransmission 6:15  
revamp 29:2  
review 27:12, 37:18,  
57:7  
reviewed 8:10,  
61:15, 63:4  
ridiculous 56:6  
rights 17:9, 18:25,  
20:12, 35:24,  
69:23, 70:16  
ripe 62:2  
risk 22:22, 72:14  
role 18:11, 48:4  
roles 11:10  
rooted 25:15, 25:19  
Rose 8:18  
ROSEN 3:7, 8:23,  
9:1, 9:7, 9:10,  
9:11, 9:13, 9:14,  
9:15, 9:17, 10:7,  
11:1, 12:11,  
12:22, 13:6,  
13:10, 13:19,  
13:23, 14:2, 14:9,  
14:13  
Rule 6:18, 7:8,  
19:24, 20:2,  
22:16, 25:18,  
46:19, 66:21,  
68:15, 68:17,  
68:19  
rules 50:19, 57:6  
ruling 63:6, 64:2,  
64:4  
run 44:24  
running 11:11  
  
< S >  
S. 3:7, 67:10  
S/ 76:13  
safe 74:22  
safety 74:23

San 5:1  
sanctions 6:18  
Sands 17:21, 56:16  
Santa 18:2, 18:19,  
36:12, 56:20,  
69:13, 70:21,  
71:24  
Santander 19:18,  
20:1, 20:3, 44:16  
Sarbanes-oxley 66:16  
sat 43:22  
satisfactory 11:25  
satisfying 17:17  
save 5:14  
saying 56:5  
says 37:3, 37:5,  
38:7, 43:10  
SCC 59:16, 60:9,  
60:17, 60:18,  
60:20, 60:22,  
60:24, 60:25,  
61:1, 61:3, 61:7,  
61:8, 61:15  
scenario 70:14  
schedule 53:15  
scheduled 15:11,  
74:2, 74:3  
scholar 25:24, 27:19  
scope 24:3  
screen 24:14, 24:16  
Sealink 56:12  
season 6:7  
Seattle 50:2  
SEC 35:14, 66:21  
Second 14:4, 20:5,  
35:15, 35:19,  
41:10, 48:13,  
51:5, 64:24,  
68:11, 72:16  
secondary 27:22  
Secondly 31:19, 52:6  
seconds 15:3, 15:4,  
23:1, 28:18,  
42:15, 42:16,  
73:18, 73:20  
Section 17:15,  
20:13, 64:14,  
69:4, 69:7, 69:8,  
69:9, 71:2, 71:9,  
71:11



Securities 22:1,  
23:14, 23:22,  
40:6, 40:8, 40:12,  
45:14, 46:11,  
46:14, 47:5, 47:7,  
47:19, 49:18,  
54:19, 57:3, 57:6,  
67:13, 67:15  
security 28:13  
seek 37:10, 66:8,  
66:10, 68:15  
seems 37:8  
select 6:11  
selection 52:15  
self 38:7  
send 14:5, 38:8  
sending 74:12  
sense 48:6, 49:2,  
53:8, 53:13,  
53:15, 53:25  
September 11:21,  
14:4, 74:3  
sequence 53:14  
series 6:5  
serious 51:3  
serve 74:10  
Services 2:11, 11:22  
Servs 66:17  
session 5:12, 8:3,  
8:4  
set 7:14, 73:6  
sets 23:8, 57:7  
settled 55:2, 68:5  
settlement 11:14,  
11:21, 11:25, 12:5  
several 25:16, 27:8,  
51:21  
shape 26:11  
share 15:21  
short 21:25  
shouldn't 13:3,  
40:13  
show 16:20, 42:8,  
45:20, 45:21,  
46:22, 47:2,  
47:17, 49:9  
showing 19:22, 51:25  
side 34:23  
sidelining 48:4  
signatory 31:10

signed 32:19  
significance 28:19,  
28:22, 36:21,  
68:13, 68:25  
significant 21:20,  
26:10, 36:10,  
72:10, 72:17  
Significantly 16:25  
similar 26:25, 71:11  
similarly 31:7,  
33:10  
simply 22:17, 57:8,  
58:21, 70:23  
single 37:3, 37:4  
situation 22:19,  
65:5, 70:21  
situation-specific  
68:7  
situations 67:23  
skip 73:11  
skipped 59:19  
small 11:24, 64:25  
smart 38:1  
Smith 2:26, 67:9  
smoother 11:11  
sold 50:18  
solely 16:8  
solution 48:9  
Solutions 6:12  
somebody 49:19  
somehow 31:8, 34:25,  
39:16, 42:12,  
43:3, 44:24,  
54:13, 58:19  
someone 9:5, 37:11  
Sons 64:21  
Sorry 18:7, 24:22,  
42:17, 53:1, 53:5,  
59:24  
sort 47:21, 50:13,  
52:12  
Sound 7:22, 7:23,  
21:14, 22:25,  
26:22, 28:4, 33:4,  
52:9, 54:7  
sounds 9:5, 13:1  
source 26:7, 28:8,  
39:10, 43:17  
sources 25:12, 39:14  
southern 6:5

Spain 27:1, 27:5  
Spanish 11:9, 19:5,  
21:16, 27:12, 28:1  
speaker 6:19, 7:14,  
7:18, 7:20, 15:11  
speakers 6:22, 7:3  
speaking 6:10, 9:16,  
11:9, 62:16, 73:10  
Special 3:28, 19:21,  
44:20, 55:6,  
55:16, 60:9  
specific 16:2,  
22:20, 26:15, 27:3  
Specifically 11:2,  
28:16, 32:2,  
50:24, 60:5,  
60:14, 61:21,  
67:14  
specified 8:2  
speculation 20:20  
speed 13:13  
spend 40:3  
spoke 44:7  
spoken 6:23, 12:18  
SPV 35:15, 44:21,  
45:1, 56:23  
squarely 43:10  
staff 74:14, 74:17  
staffing 9:20  
Stafford 3:8, 10:8  
stakeholders 5:25  
standard 16:16,  
21:25, 40:17,  
69:12, 69:16  
start 10:6, 34:21,  
40:16  
started 42:20  
state 7:2, 14:25,  
21:6, 23:13,  
23:21, 47:16,  
50:23, 51:6,  
52:16, 53:20,  
53:24, 54:22,  
65:1, 65:6, 65:12,  
65:16, 67:7,  
71:18, 71:19,  
72:17  
state-law 65:13,  
67:15  
stated 27:19, 29:5,

37:8, 65:13, 73:4  
statement 20:15,  
27:23, 61:2  
statements 30:22,  
30:25, 31:6,  
31:11, 32:20,  
35:6, 35:8, 39:10,  
39:13, 52:3,  
53:11, 58:23, 59:1  
States 1:1, 2:34,  
2:36, 5:11, 5:14,  
23:12, 36:16,  
72:23, 76:7, 76:8  
States. 64:13  
status 8:5, 10:10,  
13:11, 14:3,  
14:21, 14:24  
statute 17:22,  
56:15, 64:11,  
66:15, 68:1, 69:9  
statutory 56:15,  
71:11  
Stay 22:10, 48:11,  
56:5, 74:22  
steeped 27:10  
stenography 3:48  
stock 49:20, 49:23  
stop 49:22  
storm 6:6, 74:24  
streamlined 19:6  
strongly 71:25  
structural 9:20  
subject 17:19,  
30:13, 37:13,  
41:7, 45:10,  
60:22, 61:5,  
61:15, 64:7, 65:11  
submissions 63:4,  
64:1  
submitted 66:3,  
66:12  
subrogated 17:14,  
70:9  
subrogation 32:23,  
35:24, 36:24,  
37:4, 37:5, 37:10,  
37:12, 37:17,  
37:23, 38:6,  
38:15, 41:6,  
44:13, 56:15,

56:17, 57:21  
subsequent 43:8  
subsequently 32:21  
subset 20:11  
substance 60:19  
substantial 32:6,  
45:2, 46:1, 54:11,  
65:14, 65:19,  
65:25, 67:18,  
67:24, 68:11  
substantiality  
67:19, 67:23, 69:1  
substantially 21:6,  
21:7, 49:5  
substantive 16:5,  
67:3, 72:19, 72:21  
substantively 13:9  
substitution 17:24,  
18:17, 35:22,  
35:25, 36:19,  
56:20, 70:10  
successful 70:23  
sue 50:1  
sued 44:23  
suffered 50:4  
sufficient 36:19,  
44:5, 47:12, 67:8  
sufficing 21:1  
suggest 37:14,  
38:16, 59:10  
suggested 38:23,  
42:24, 43:7  
suggesting 36:1,  
48:14, 58:17  
suggestion 34:24,  
36:24, 38:20,  
39:16, 42:11,  
48:15  
suggests 49:11  
suing 38:25, 49:13  
suited 26:19, 27:11  
suits 67:12  
summary 20:23  
superb 74:19  
Superior 28:12  
Supp 66:18  
Support 19:15,  
19:20, 43:23,  
50:25, 58:13,  
63:9, 63:12,

66:23, 67:8,  
71:25, 72:1, 73:1,  
74:20  
supported 33:6  
Supreme 16:13,  
17:21, 21:17,  
23:12, 24:2,  
25:17, 26:6, 27:5,  
27:18, 45:22,  
51:12, 51:23,  
56:16, 57:15  
surprising 40:13  
Swain 2:33, 5:6,  
5:13, 59:22, 76:7  
swap 70:23  
switch 18:18  
system 16:14, 66:1,  
68:4  
system. 67:21  
systemic 22:22  
systems 29:2  
  
< T >  
table 45:16  
Tacoronte 5:9  
talked 41:1, 49:6  
target 10:3  
Taylor 2:33, 5:5,  
5:12, 76:7  
technical 73:6  
technological 62:17  
telephonic 6:8, 8:8  
TELEPHONICALLY 3:3,  
5:22, 74:4  
ten 12:19  
term 13:18  
terms 18:23  
test 38:14, 50:13  
tests 54:3  
thankfully 51:16  
themselves 52:2,  
73:13, 73:14,  
73:16  
theories 44:24  
thereby 66:5  
therein 61:6  
Thereof 63:9  
They've 36:4, 36:5,  
37:9, 37:14, 39:1,

39:5, 39:19,  
39:22, 43:22,  
46:23, 54:6  
thinking 37:16,  
47:15  
third 31:16, 72:16  
third-party 31:14  
Thompson 65:10  
though 13:1, 38:5  
thoughts 6:1  
thousand 12:20  
three 34:15, 55:23  
threshold 16:3, 64:8  
timeline 9:23  
timely 20:23, 44:22  
timetable 10:5  
timing 42:21, 42:25,  
43:22  
today 5:22, 6:8,  
6:22, 15:20,  
29:11, 34:21,  
61:15, 64:1, 73:4,  
74:19  
together 15:19,  
63:14  
total 12:10, 12:12,  
12:22, 15:11,  
70:19  
totally 44:15  
touched 28:12  
touches 23:22  
towards 13:15  
Town 65:8  
track 7:18, 7:19  
trade 72:14  
tradition 25:15,  
26:10, 27:11  
traditional 47:22,  
52:19  
traditionally 37:12  
traditions 26:25  
tranche 14:5  
transaction 61:11  
Transcript 3:48,  
7:7, 64:4, 76:4  
transcription 76:5  
transferred 10:11  
translation 26:4  
treaties 64:13  
treatise 28:2

treatises 27:6,  
27:12  
treatment 61:24  
trial 52:10, 71:22  
tried 19:6, 35:12  
Tristan 3:29, 59:15  
tropical 74:24  
true 38:25, 40:23,  
47:1, 50:6, 61:3,  
76:5  
try 48:10, 48:25,  
49:1  
trying 50:22  
turn 15:6, 19:11,  
29:12, 29:18,  
34:1, 45:5, 45:16,  
52:4, 52:17, 54:1,  
62:17, 67:25  
turns 46:8, 69:2,  
71:3  
two 7:20, 7:21,  
7:24, 11:3, 17:2,  
19:19, 30:12,  
30:21, 35:13,  
46:10, 52:24,  
53:3, 58:7, 63:14,  
64:14, 67:22  
two-month 13:25  
type 18:20, 41:1  
types 26:16

< U >

UBS 2:11  
ultimately 32:21  
unavailable 37:3,  
48:23  
unaware 60:22, 61:5  
uncertain 43:19,  
56:10  
uncertainties 6:6  
unconditional 20:9  
unconfirmable 43:24  
underlying 61:16,  
72:22  
understand 33:13,  
33:15, 51:11  
underwrite 54:15  
Underwriter 31:21,  
34:12, 57:7,

58:24, 63:22  
Underwriters 3:16,  
16:9, 30:25, 40:7,  
40:10, 46:3, 58:13  
underwriting 31:24,  
32:4, 32:9, 32:12  
unease 6:4  
unequivocally 56:17,  
56:25  
unflagging 45:25  
unilateral 16:10,  
16:17, 21:15,  
25:11, 26:5,  
27:16, 28:8, 29:1,  
51:24  
unique 16:14, 25:9,  
30:7, 31:20, 72:18  
United 1:1, 2:34,  
2:36, 5:11, 5:14,  
23:12, 36:16,  
64:13, 76:6, 76:8  
unlawful 53:24  
Unless 29:13, 33:21,  
59:12  
unlike 52:17  
unmistakable 51:25,  
52:1  
unmute 6:20, 7:1,  
9:1, 9:9, 14:25,  
24:7, 24:9, 24:13,  
55:25, 59:18,  
73:9, 73:13, 73:14  
unmuted 55:9, 62:21  
unmuting 15:2, 73:16  
unrealistic 18:13  
Unsecured 10:23,  
17:16  
unsettled 21:19  
until 22:10, 48:11,  
49:1, 74:13  
untrue 20:14  
update 10:12  
urgency 72:10  
usage 19:9, 26:12,  
26:23  
usual 8:5  
utilize 11:6

< V >

v. 2:9, 2:23, 23:13,  
57:1, 57:16,  
64:15, 64:20,  
64:22, 65:3, 65:8,  
65:9, 66:18, 67:9,  
69:19  
validity 22:21  
variety 60:12  
veering 13:15  
versa 53:23  
vice 53:23  
Videocart 57:19  
view 9:24, 38:22,  
47:23  
VII 16:11, 25:13  
violated 16:22,  
47:6, 47:18, 57:9  
violates 57:17  
Violations 6:17,  
23:14  
virtually 20:9,  
20:24, 45:24  
Vitol 22:11, 52:12,  
56:7  
voice 73:19  
volume 10:5  
voluntad 25:12,  
26:5, 27:16, 28:8,  
29:1

< W >

wait 15:1, 15:3,  
24:11, 24:15,  
24:19, 48:10,  
49:22, 73:18  
walk 39:24, 47:21  
Walker 76:13, 76:14  
wanted 11:4, 34:21,  
35:19, 36:24,  
38:20, 42:10,  
50:1, 73:7  
wants 73:14  
warned 18:7  
wash 39:19  
Washington 50:2  
watching 29:21  
wave 55:17  
waving 55:19, 55:21  
ways 36:18, 38:22

weigh 23:19, 26:12,  
47:23, 52:19  
weighing 43:3  
weighs 47:19, 48:7,  
49:4, 52:11  
weight 27:9  
welcome 5:20  
well-established  
69:11  
well-known 27:18,  
28:1  
well-pleaded 22:16  
Whether 9:7, 22:5,  
22:17, 23:10,  
36:19, 37:17,  
38:14, 40:17,  
40:21, 40:22,  
40:24, 42:1, 44:3,  
47:16, 50:9,  
52:18, 54:12,  
54:15, 54:16,  
57:9, 57:20, 62:9,  
64:6, 65:11,  
65:13, 68:18,  
68:22, 69:2,  
69:12, 71:14  
whole 44:10, 66:1,  
68:4  
whom 63:17  
Wilmer 34:12  
win 40:21, 40:22,  
41:2, 41:14, 44:3  
wish 7:1, 8:15,  
14:17, 14:24,  
62:18, 74:23  
wishes 7:3  
within 45:1, 66:24  
without 39:23, 65:15  
withstanding 36:2,  
45:6, 67:11  
WITNESSES 4:3, 31:15  
won 42:3  
word 45:13  
words 45:12, 68:3  
work 25:5, 74:18  
working 10:13,  
10:22, 11:13,  
53:16  
world 37:8, 41:2,  
41:10, 43:19,

48:22, 49:18  
Worldcom 35:14,  
56:23  
write 38:4  
writing 8:7, 25:25,  
38:11  
written 54:5  
wrongful 41:24  
  
< Y >  
year 13:5  
years 19:19, 22:19,  
34:14, 46:6, 52:16  
York 50:25, 74:18  
young 34:18  
yourself 6:20, 6:21,  
7:2, 14:25, 24:7,  
37:25

< Z >

Z. 3:13